

*As prepared for delivery.*

Statement by  
Hon. David M. Walker  
President and CEO, Peter G. Peterson Foundation  
Former U.S. Comptroller General  
National Commission on Fiscal Responsibility and Reform  
Wednesday, June 30, 2010  
Washington, DC

Thank you for this opportunity to testify on behalf of the Peter G. Peterson Foundation, a non-partisan, non-profit organization dedicated to increasing awareness of – and action on – America's large and growing fiscal challenges.

I would like to begin by commending the Members of the Commission and President Obama for the establishment of this Commission. Your efforts to address our nation's deteriorating financial condition and growing fiscal challenges are of critical importance to our nation's and our families' futures.

While we are willing to provide input on a range of issues, due to limited time, my testimony today will focus on dispelling one particular myth that represents perhaps the biggest obstacle to moving the nation forward from an economic and fiscal perspective. That is, the myth that we cannot address our current economic crisis and our long-term fiscal crisis at the same time. Indeed, not only is this practicable, it can be prudent and may be necessary given the current state of affairs.

America finds itself in a deeply difficult and increasingly complex fiscal situation. On the one hand, our economic recovery has not been as vigorous as we had hoped or needed it to be. Unemployment remains dangerously and stubbornly high, consumer spending is tepid, the housing market remains weak and many Americans continue to feel that our country is headed in the wrong direction. As a nation, we lack confidence in the future of the economy.

On the other hand, we face a very real threat to our collective future in the large, growing and longer-term structural deficits that will exist after the economy has recovered, after unemployment levels have declined, after the wars are over and long after our recent financial services and housing crises have past. These structural deficits are driven largely by the tens of trillions in off-balance sheet obligations, including over \$38 trillion and almost \$8 trillion relating to the Medicare and Social Security programs, respectively, as per the federal government's September 30, 2009 consolidated financial statements.

We must begin to address these structural deficits. Otherwise, we risk losing the confidence of our foreign lenders. If that happens, interest rates could increase dramatically and the dollar could decline quickly. This would have a serious and adverse effect on the federal budget, our economy and the security and well being of American families. It would also result in serious economic disruption not only in the U.S., but around the globe.

We must also be mindful of the fragile economic recovery and the millions of Americans who are out of work and in need of temporary assistance. The difficult and necessary work we must do to solve our longer-term fiscal challenges – cutting spending, raising revenues and reforming government – must not do further harm to our economy or our citizens.

So, how do we reconcile these two important objectives?

In our view, the answer is to continue to pursue selected short-term initiatives designed to stimulate the economy and address unemployment, but to couple these actions with specific, meaningful actions designed to resolve our long-term structural deficits. Only through real legislative and other actions by the Congress and the President can we send a clear message that America is committed to return to a prudent fiscal path.

To ease the economic pain of unemployed and underemployed Americans and to avoid a “double dip” recession, we can and should pursue targeted and short-term initiatives that are temporary, properly designed, appropriately conditioned and effectively implemented. Simultaneously with these initiatives, Congress and the Administration should design and implement a plan to address our longer-term challenges that would go into effect automatically at an appropriate point in time (e.g., once the economy has recovered and unemployment declines to a stated level).

Everything should be on the table for consideration for this plan, including tougher statutory budget controls, spending cuts and revenue increases. Given the magnitude of future obligations, entitlement reform must be part of the package, but in a way that strengthens and secures our nation's important social safety net in a sustainable manner. Defense spending reductions should also be considered. And because addressing this challenge with spending cuts alone would devastate our social insurance programs and reduce other important public investments, meaningful revenue increases should also be part any overall reform effort. We should also re-examine the many so-called “tax expenditures” that take revenue out of the system.

What is important is that America’s commitment to reform is real and based on concrete actions rather than words or processes alone. So under this approach, there should be an objective measure of our economic health and employment that would automatically trigger the commencement of these reforms. This commitment could in fact help stimulate the short-term recovery due to the confidence that it would build around the world.

In summary, we must work simultaneously to grow the economy and get our fiscal house in order. This may be counterintuitive to some in Washington who want to focus only on one challenge or the other, but as the American people know, we are entirely capable of doing two things at the same time.

In fact, they demonstrated this very recently through one of our foundation’s important initiatives. A few days ago, on June 26th, more than 3,500 people in 19 cities and other communities participated in a national citizen engagement exercise organized by *AmericaSpeaks* to discuss the nation’s fiscal challenges in a series of real and virtual town hall meetings. This was the largest and most representative event ever conducted regarding our nation's fiscal challenges. And it took place on a Saturday.

Thousands of Americans gave up part of their weekend because they are highly concerned about – and fully engaged in – solving our long-term fiscal crisis. When presented with the facts, the American people understand that we face a range of serious sustainability issues that threaten our country's future. And they see no reason why their elected leaders cannot meet the challenges of both our short-term economic recovery and our long-term fiscal crisis at the same time. To families across the nation, these are simply two sides of the same coin.

We at the Peterson Foundation believe that Washington must begin to take corrective measures with equal regard for our citizens who continue to struggle during this time of recovery as well as for our children who are depending on us to leave them a strong, sound and secure nation. We fully support the efforts of this commission in raising awareness about, and proposing solutions to meet, our fiscal challenges. And we stand ready to assist you in this critical effort.

Thank you.



Peter G. Peterson  
Foundation

Our America. Our Future.

# The Financial Condition and Fiscal Outlook of the U.S. Government

## Selected Charts

June 28, 2010



# Preamble

June 2010

To the Reader:

This group of charts has been prepared by the research staff of the Peter G. Peterson Foundation in order to promote public understanding of the nature and magnitude of the fiscal challenges facing the United States government. The information presented has been compiled from a range of official government and other reliable sources. The charts present historical, current and projected information for the U.S. as well as comparative statistics for other industrialized nations.

We believe that the country's structural deficits and longer-term fiscal challenges will not be addressed until the American people understand the problem. In our view, these slides make a clear and compelling case that the United States government is on an imprudent and unsustainable longer-term fiscal path. Tough decisions are required involving a re-prioritization of defense and other spending, social insurance program reforms, tax reform that will raise more revenues, and statutory budget controls to impose fiscal restraint. The sooner we make these choices the better. With continued delay the magnitude of the changes needed to put our federal financial house in order will grow and the risk of a serious crisis of confidence among our foreign lenders will increase. Such a crisis of confidence would have serious adverse consequences both in the United States and around the world.

We hope that these charts will help the reader better understand the challenges that we face along with the urgent need for timely action. The Foundation's research team—Tim Roeper, Kristin Francoz, Purnima Anand, under the direction of Ann Futrell and supervision of Susan Tanaka, prepared this chart package. Alexandra Voss also contributed to the effort.

Please join us in our efforts to find sensible and sustainable solutions that will help keep America strong and the American Dream alive for future generations.

Sincerely,



Peter G. Peterson  
Chairman



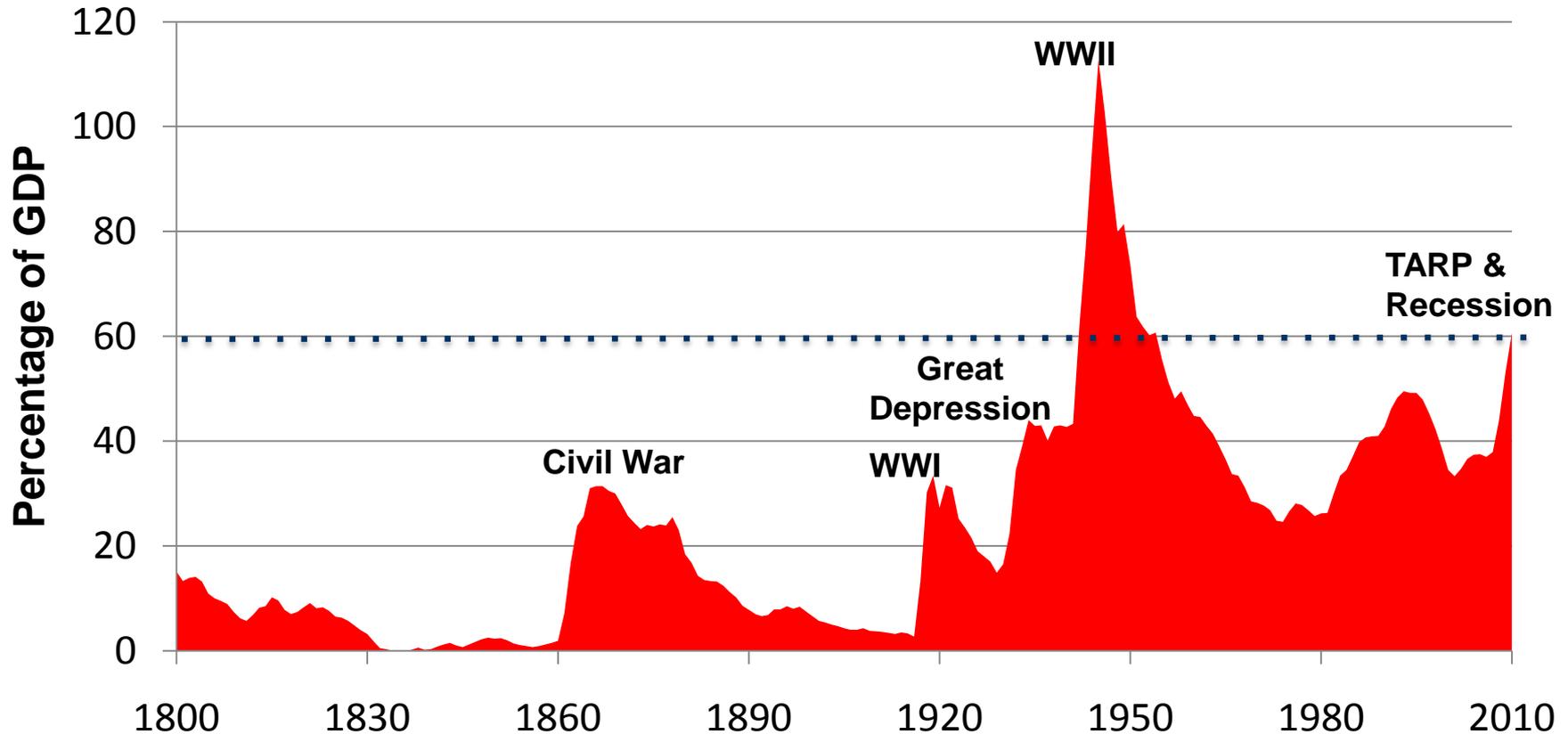
David M. Walker  
President and CEO

## Chart 1: Debt held by the public:1800-2010 (percentage of GDP)

For the first 200 years of its history, the United States ran large budget deficits and accumulated debt burdens only during times of war or economic recession. During this period, the U.S. also took steps to be fiscally disciplined and to grow its economy in order to minimize the level of debt held by the public as a percentage of the overall economy, also known as the ratio of public debt-to-GDP.

The only time the U.S. has experienced a public debt-to-GDP ratio of over 60 percent was during World War II. The federal government's public debt-to-GDP ratios is about 60 percent now, and it is expected to rise substantially in the future absent meaningful policy reforms. The 1992 Maastricht Treaty on European Union stipulated that member states maintain a central government debt level below 60 percent of GDP; for this reason, 60 percent is an internationally accepted fiscal standard.

Since 1800, U.S. Debt Held by the Public has exceeded 60 percent of GDP (the maximum debt ceiling used by the European Monetary Union) only during World War II



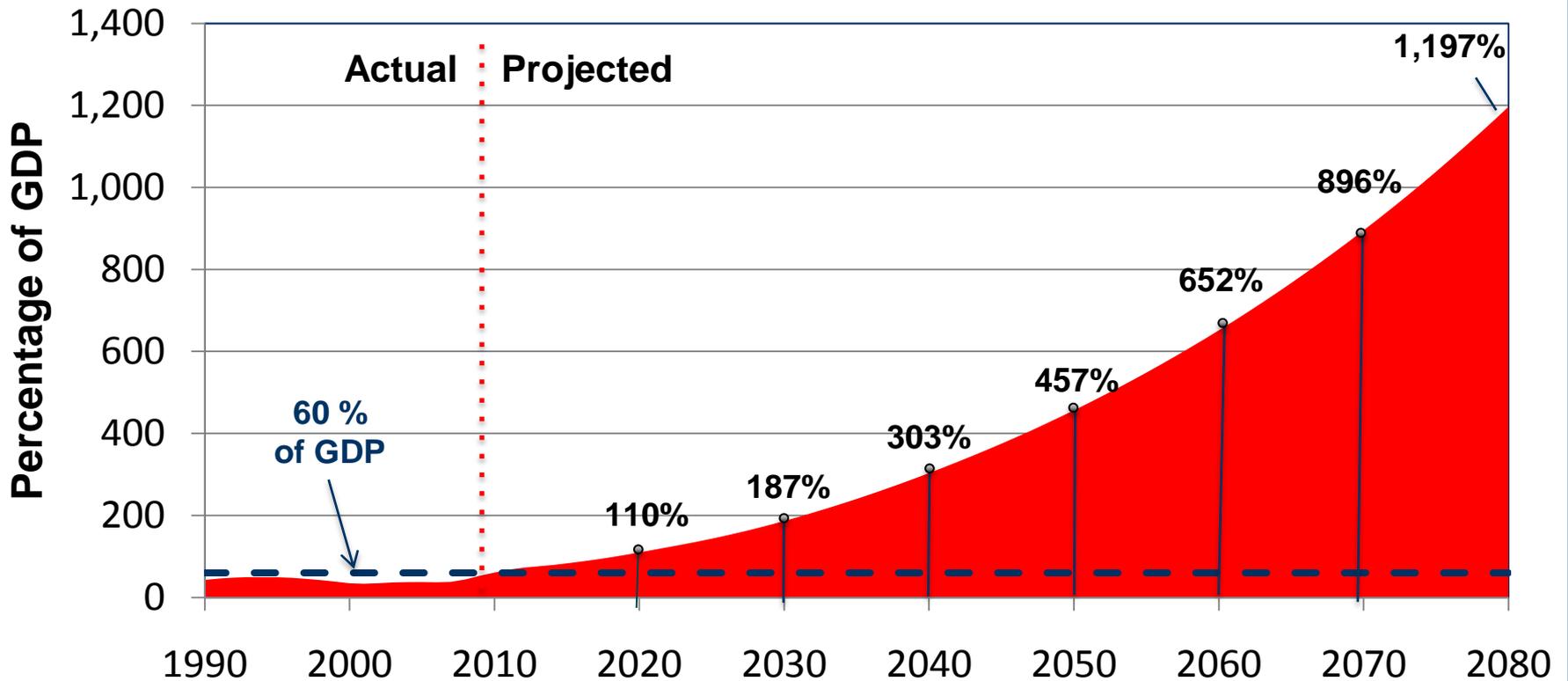
SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*; the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

## Chart 2: Debt held by the public: projections through 2080 under current policies (percentage of GDP)

Debt held by the public, measured as a percentage of GDP, is expected to skyrocket in the future based on the government's current policy path. Absent any changes to this path, the public debt-to-GDP ratio is projected to rise to 110 percent in 2020 (well above the European Union standard of 60 percent), and to 303 percent in 2040.

## Future U.S. Debt Held by the Public is projected to soar if current policies remain unchanged



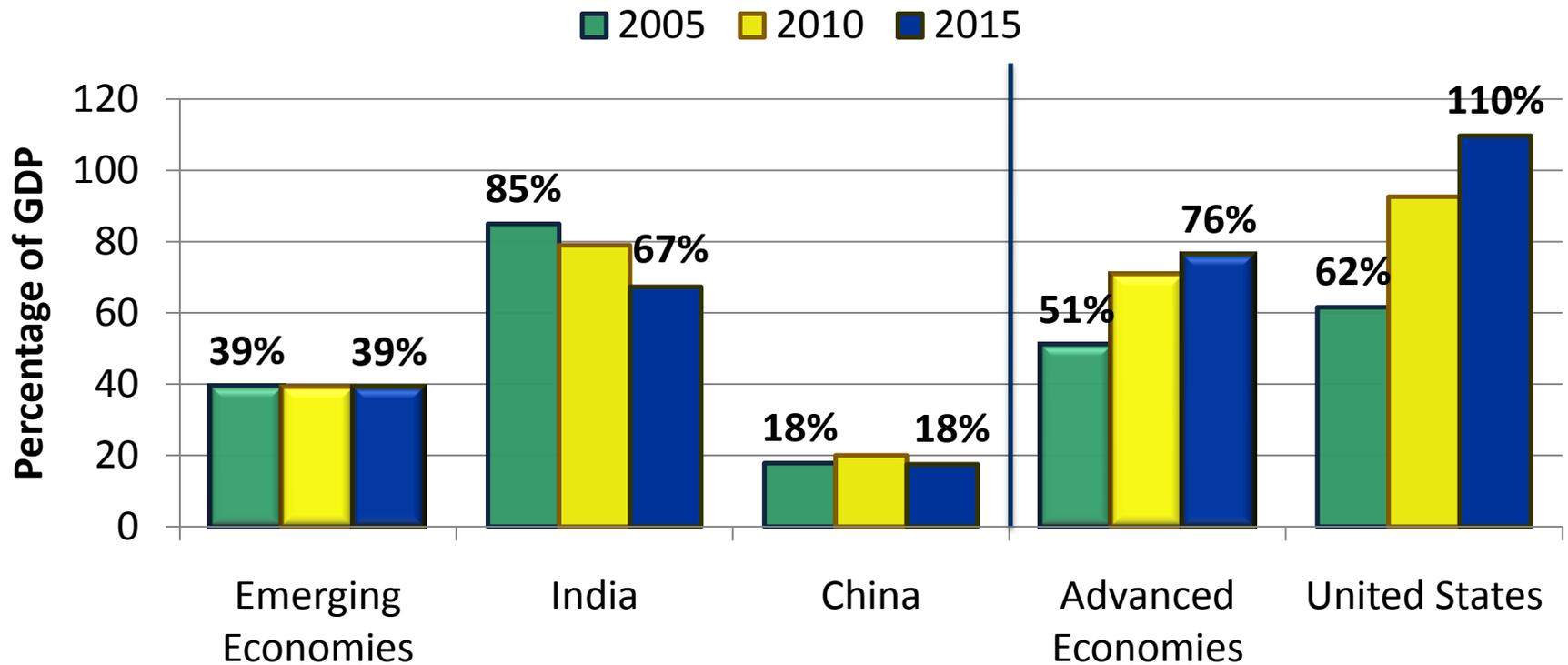
SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*; the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook, January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

## Chart 3: International comparison of total government debt: 2005, 2010, and 2015 (percentage of GDP)

Five years ago, the United States had a total government debt (which consists of federal, state and local debt held by the public) that was 11 percentage points above the median of all advanced economies. Absent policy reforms, the United States' total government debt level is projected to be about 34 percentage points above that median (more than 40 percent higher) within the next 5 years.

Once comparable to that of other advanced economies, the total government debt of the U.S. is now projected to be more than 40 percent higher than the median for advanced economies in 2015



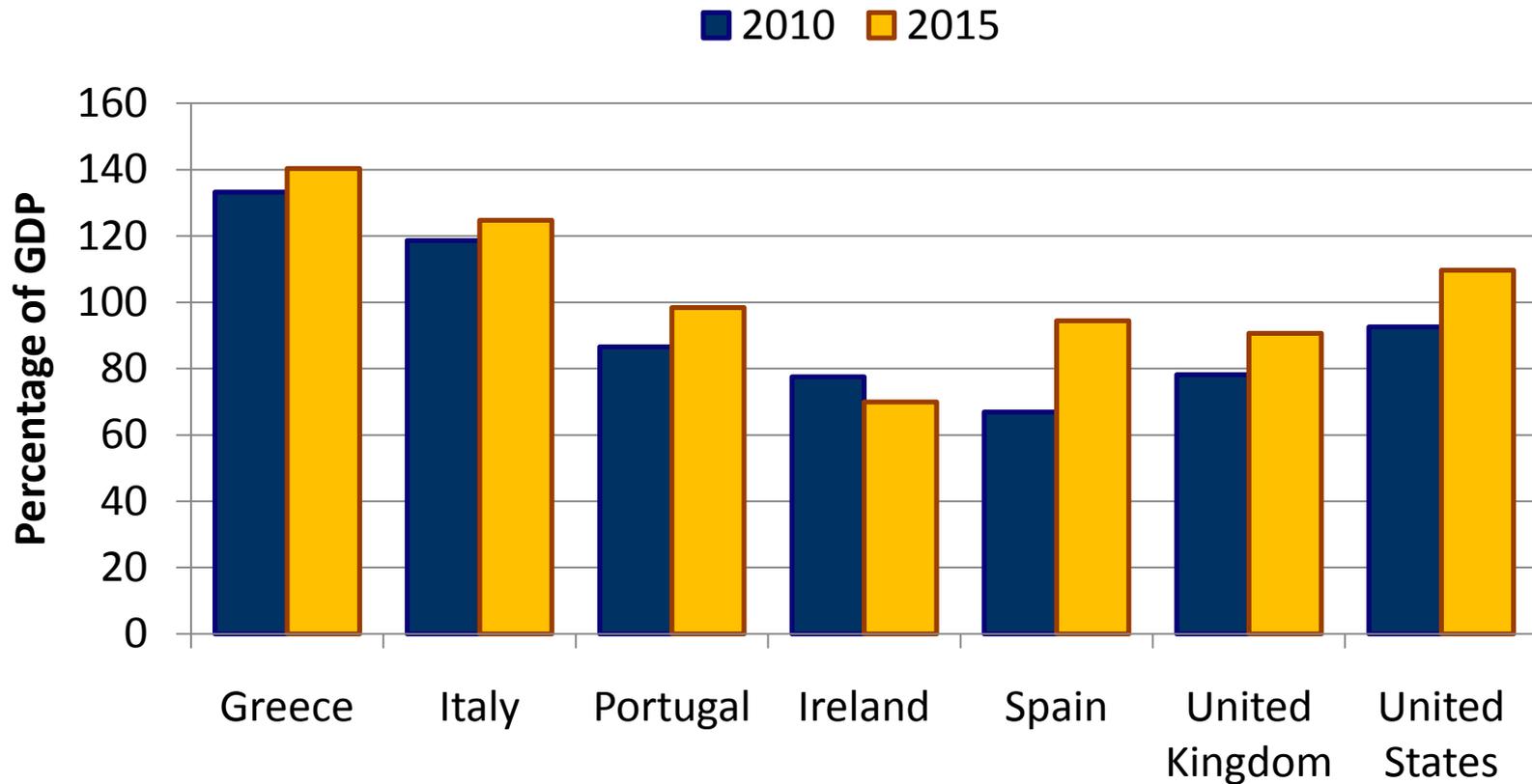
SOURCE: Data from the International Monetary Fund, *IMF Fiscal Monitor Series: Navigating the Fiscal Challenges Ahead*, May 14, 2010. Compiled by PGPF.

NOTES: Economists such as Victor Shih from Northwestern University have argued that the accounting of debt by international agencies such as IMF understates the Chinese debt numbers because they fail to include the undocumented local government borrowing. In addition to a low level of debt, China also has an astonishingly high net national savings rate. In 2008 it was 43.8 percent of gross national income (GNI); for U.S. in that year, it was -1.4 percent of GNI. Total Government debt (also referred to as general government gross debt) measures all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date in the future. This includes central, state and local government debt. All country group averages are medians.

## Chart 4: U.S. comparison to European countries of total government debt: 2010 and 2015 (percentage of GDP)

The ratio of total government debt-to-GDP is higher in the United States than in many financially troubled countries in Europe. Absent a change in course, the United States is expected to approach Italy's current level of total government debt-to-GDP within five years.

## Total government debt in the U.S is higher than some of the most financially troubled countries in Europe



SOURCE: Data from the International Monetary Fund, *IMF Fiscal Monitor Series: Navigating the Fiscal Challenges Ahead*, May 14, 2010. Compiled by PGPF.

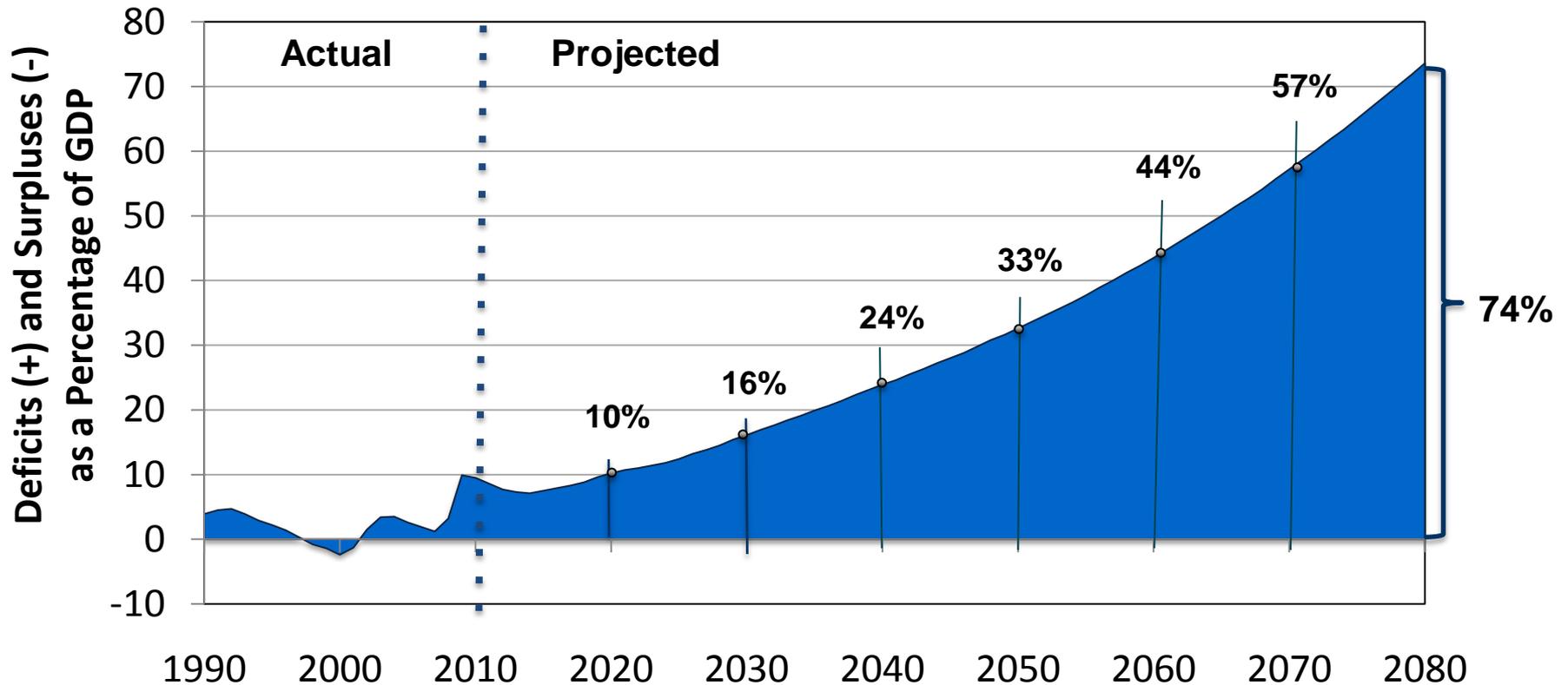
NOTE: Both 2010 and 2015 figures are estimates. Total Government debt (also referred to as general government gross debt) measures all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date in the future. This includes central, state and local government debt.

## Chart 5: Historical and projected deficits: 1990-2080 (percentage of GDP)

Based on the federal government's current policy path, deficits are projected to more than double as a percentage of the economy between 2030 and 2040. While short-term deficits are very high due to revenue declines and spending increases, the true threat to our nation's fiscal future can be found in the longer-term structural deficits. These are driven largely by growing health care costs and an aging population characterized by a declining number of workers relative to the number of retirees.

The structural deficits are the ones that will persist—the deficits that will remain even after the economy recovers, unemployment levels improve, the Iraq and Afghanistan wars are over, and long after the housing and financial crises have passed.

## Under current policies, federal deficits are projected to more than double as a percentage of GDP, even after the economy recovers



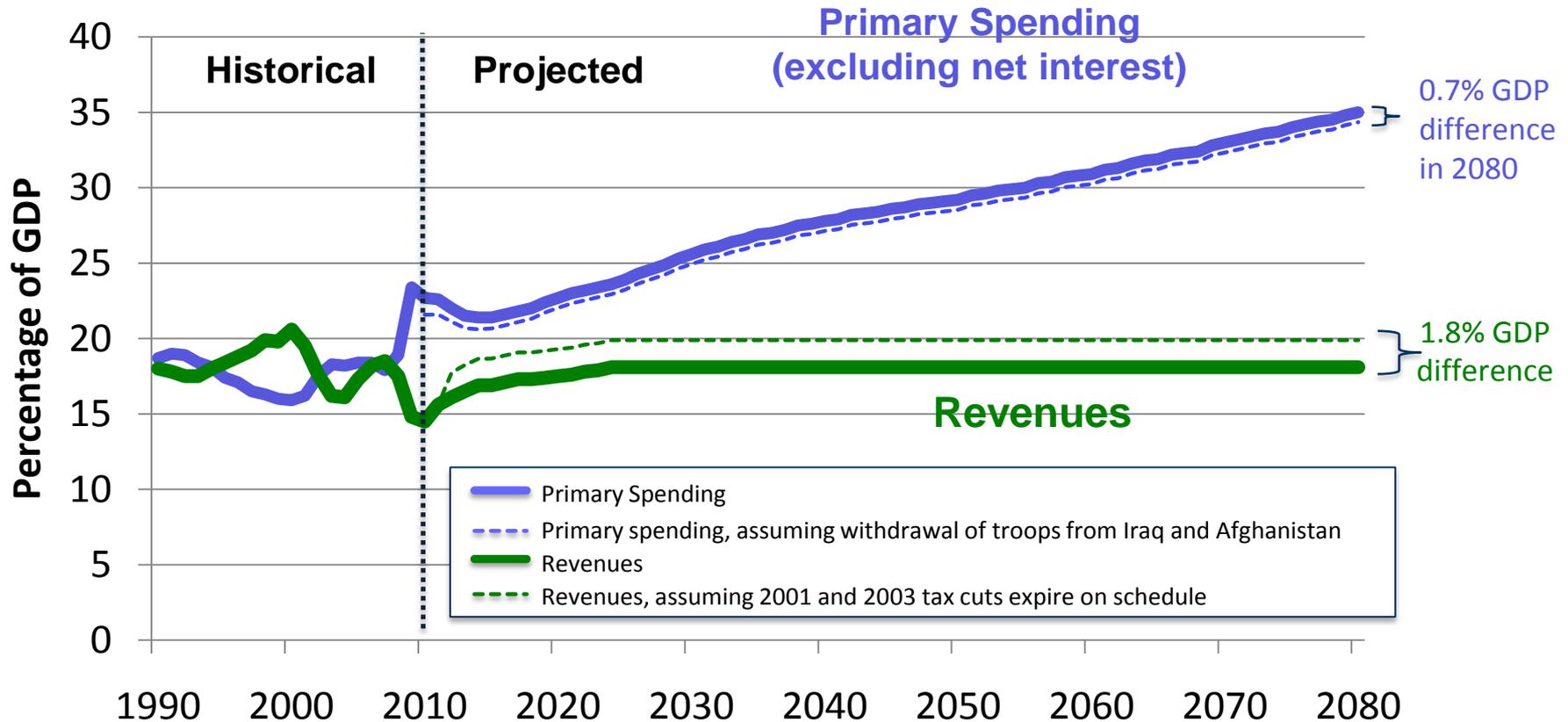
SOURCES: Data the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010; and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: The current policy estimates from GAO assume extension of the 2001 and 2003 tax cuts, alternative minimum tax (AMT) exemption amount is indexed to inflation, Medicare physician payments are not reduced, and discretionary spending grows with GDP.

## Chart 6: Budgetary impact from policy options (percentage of GDP)

Despite public perceptions to the contrary, eliminating all of the tax cuts that were enacted in 2001 and 2003 during the Bush Administration, on top of withdrawing all of our troops from Iraq and Afghanistan, would eliminate only 15 percent of our projected fiscal imbalance in 2080. There is currently a bipartisan consensus to extend many of the Bush tax cuts for middle-income families; extending the cuts would make the policy remedies on both the spending and tax sides of the federal ledger even more difficult.

Addressing the projected fiscal gap will require a review of all government spending programs and revenue: withdrawal of troops from Iraq and Afghanistan and eliminating the Bush tax cuts would only have a minimal impact on the long-term fiscal gap



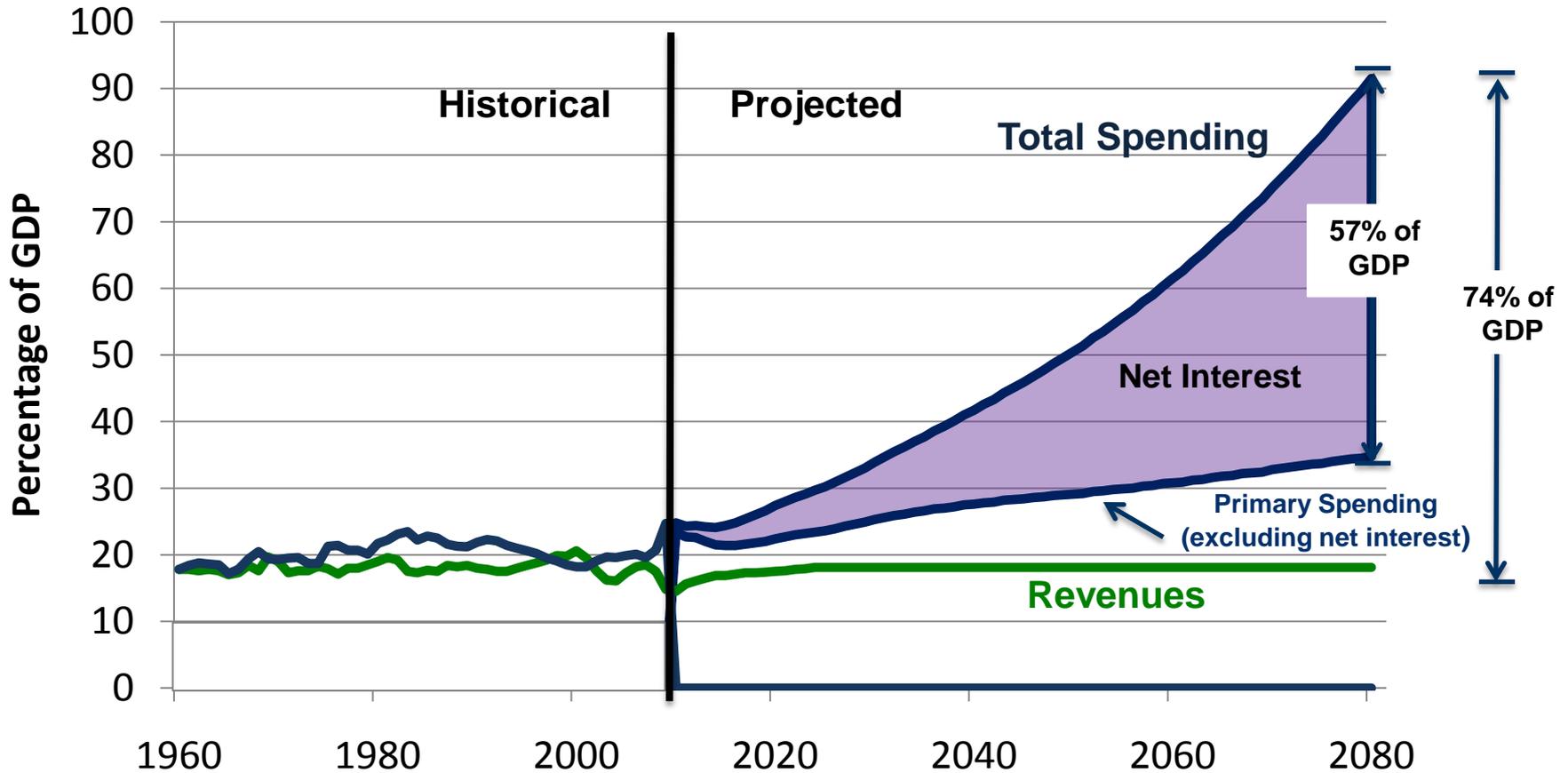
SOURCE: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010; the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010*, alternative simulation based on Congressional Budget Office assumptions; and the Congressional Budget Office, *Budget Outlook: January 2010*. Compiled by PGPF.

## Chart 7: The projected widening gap between spending and revenues (percentage of GDP)

Under current policies, projected spending will substantially exceed revenues, which have historically averaged about 18 percent of GDP. Borrowing the difference would in turn result in rapid escalation of federal interest costs. In fact, under this scenario, interest would represent by far the fastest growing cost in the budget.

Current projections assume future interest rates will be close to the average historical level of 5 percent, but, realistically, the federal government will not be able to borrow the amounts projected without interest rates rising even more. Higher interest rates would only serve to worsen our structural deficit problem.

The cumulative deficits would cause a significant interest burden: net interest is projected to cause over  $\frac{3}{4}$  of the budget gap in 2080 (even assuming a baseline interest rate of only 5.0%)

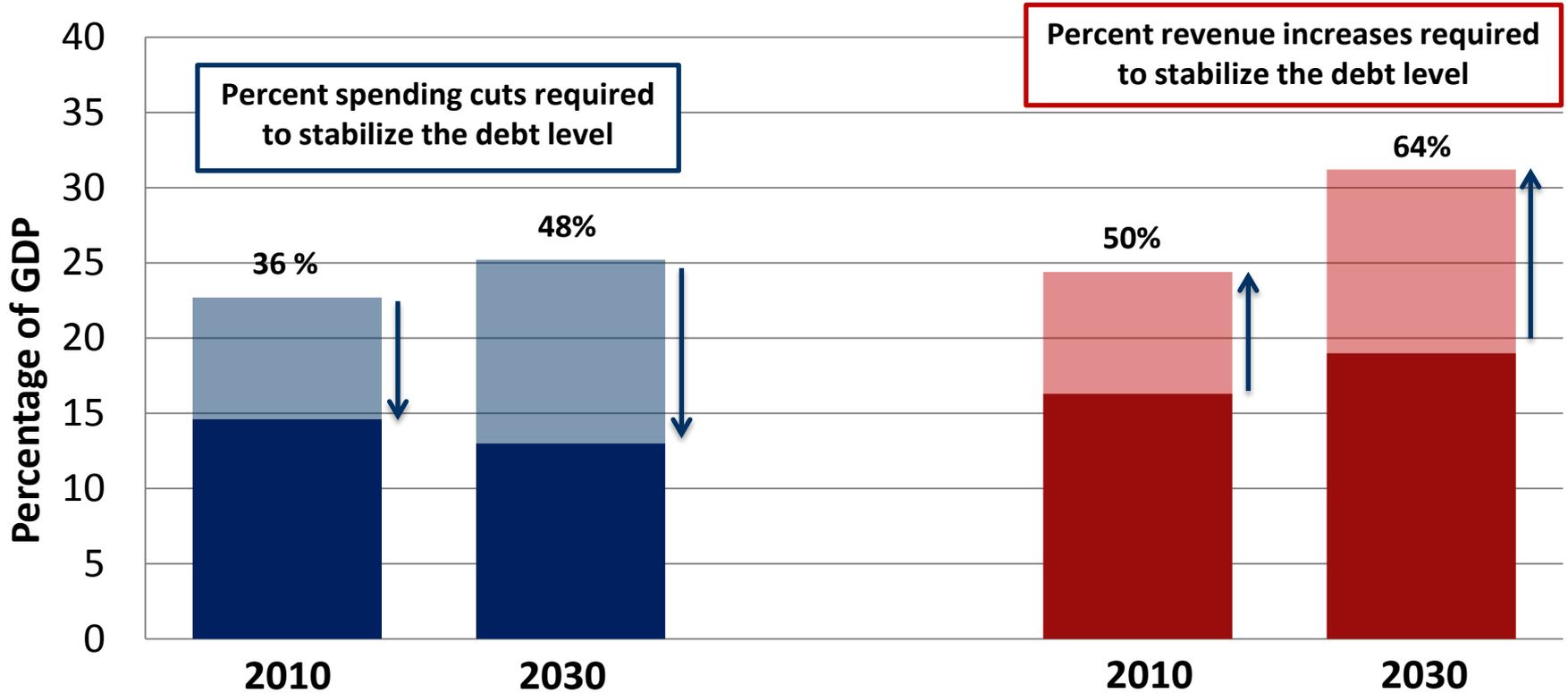


SOURCES: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010; and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010*, alternative simulation based on Congressional Budget Office assumptions. Compiled by PGPF.

## Chart 8: Waiting to stabilize the national debt, by using spending cuts or tax increases alone, would lead to more and more difficult choices in the future

Delaying needed spending cuts and revenue increases will increase the size of the adjustments that are projected to be necessary over time. For example, the fiscal gap today could be closed with either a 36 percent cut in spending or a 50 percent increase in revenues in 2010. Waiting to act until 2030 would require either a 48 percent spending cut or a 64 percent increase in revenues. Therefore, acting sooner rather than later would help to avoid a fiscal crisis and reduce the magnitude of changes needed. From a practical standpoint, closing the fiscal gap will require a combination of spending cuts and revenue increases.

# If we wait to stabilize our national debt, by using spending cuts or revenue increases alone, we would face more and more difficult choices in the future



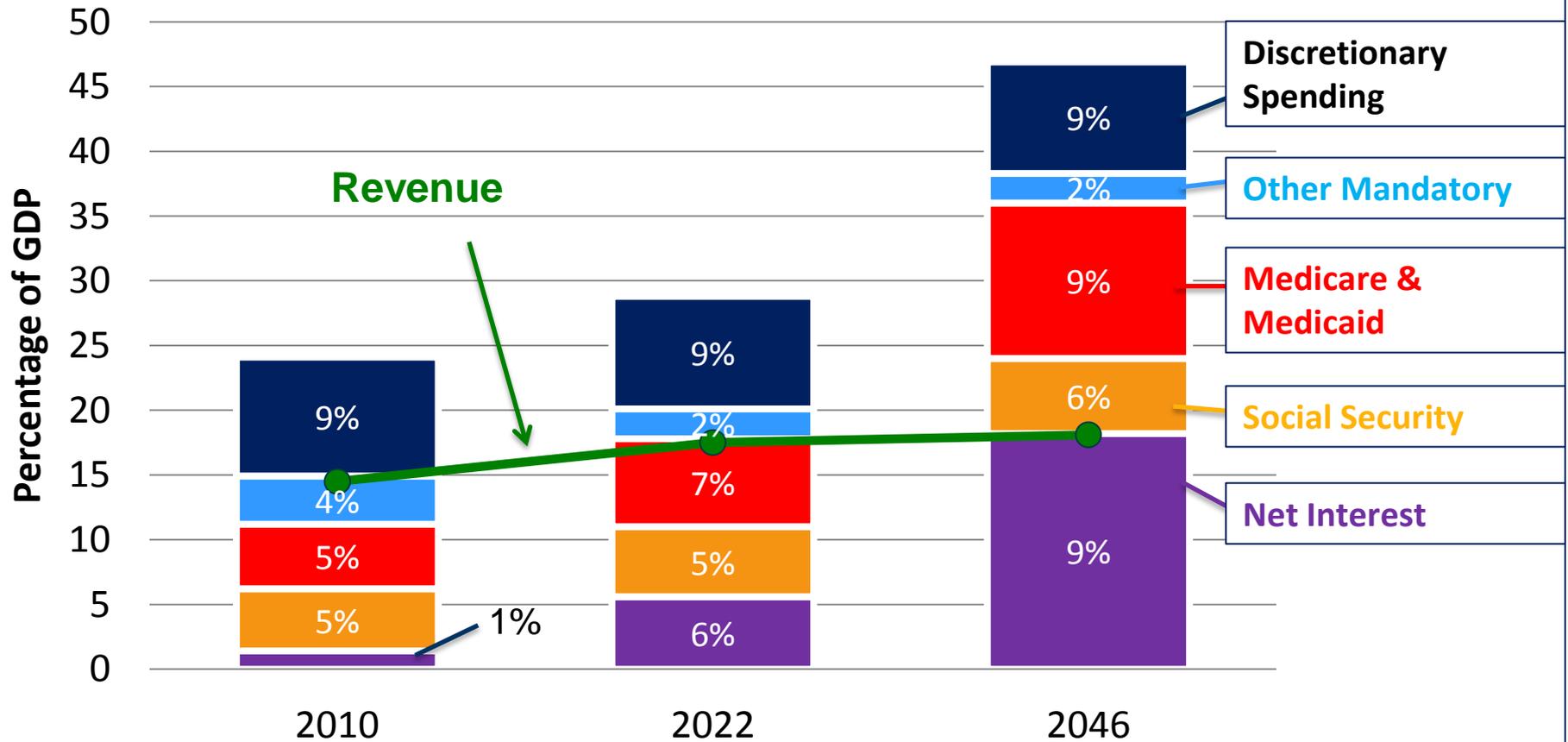
SOURCE: Data from the Congressional Budget Office, *Long-Term Budget Outlook*, June 2009. Compiled by PGPF.

NOTE: Spending refers to non-interest spending. The amounts shown are the non-interest spending cuts or revenue increases from the projected levels required to close the projected fiscal gap by using only one or the other, not both. The fiscal gap is a term that refers to the reduction in spending or increase in revenues required to keep debt-to-GDP no higher than the 2010 level in 2085. By waiting until 2030 to close the fiscal gap, then, spending would have to go from 24.8 to 13 percent of GDP, or revenue would have to rise from 19 to 31.2 percent of GDP.

## Chart 9: Projected growth in spending by category compared with projected revenues through 2046 (percentage of GDP)

Assuming historical levels of federal revenues, no reforms to Social Security, Medicare or Medicaid, and no reduction in the relative size of other federal spending, federal deficits are projected to escalate dramatically in the future. The fastest growing item in the federal budget would be interest on the debt followed by Medicare and Medicaid.

Without reforms, by 2022, future revenues will only cover Social Security, Medicare and interest on the debt. By 2046, revenues won't even cover interest costs.



SOURCE: Data from the Government Accountability Office *The Federal Government's Long-Term Fiscal Outlook*: January 2010, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Baseline interest rate is assumed to be 5.0%.

## Chart 10: Growth in U.S. dependency on foreign lenders to finance the public debt

During the past 40 years, the U.S. has gone from being the world's greatest creditor nation to the world's largest debtor nation. In addition, due to low domestic savings rates, the U.S. has become increasingly reliant on foreign lenders to finance our nation's debt. The share of foreign-held debt has gone from close to zero percent at the end of World War II and only five percent in 1970, to almost 50 percent today. This reliance on foreign lenders undermines our national sovereignty, and is not in our nation's long-term economic, foreign policy, or national security interests.

# U.S. dependency on foreign lenders to finance the public debt has risen sharply

**1970**

**Total Debt: \$283 billion**

**Foreign Holdings:**

**5%**

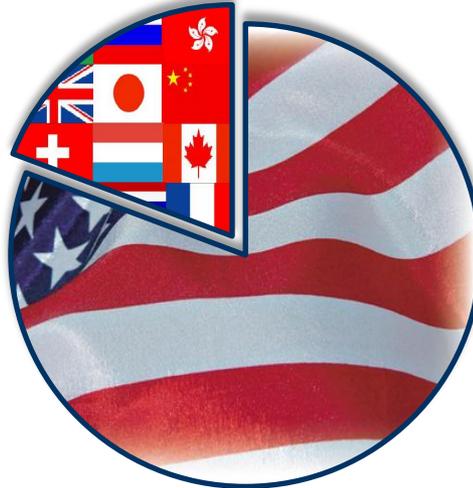


**1990**

**Total Debt: \$2,412 billion**

**Foreign Holdings:**

**19%**



**2010 est.**

**Total Debt: \$8,387 billion**

**Foreign Holdings:**

**47%**



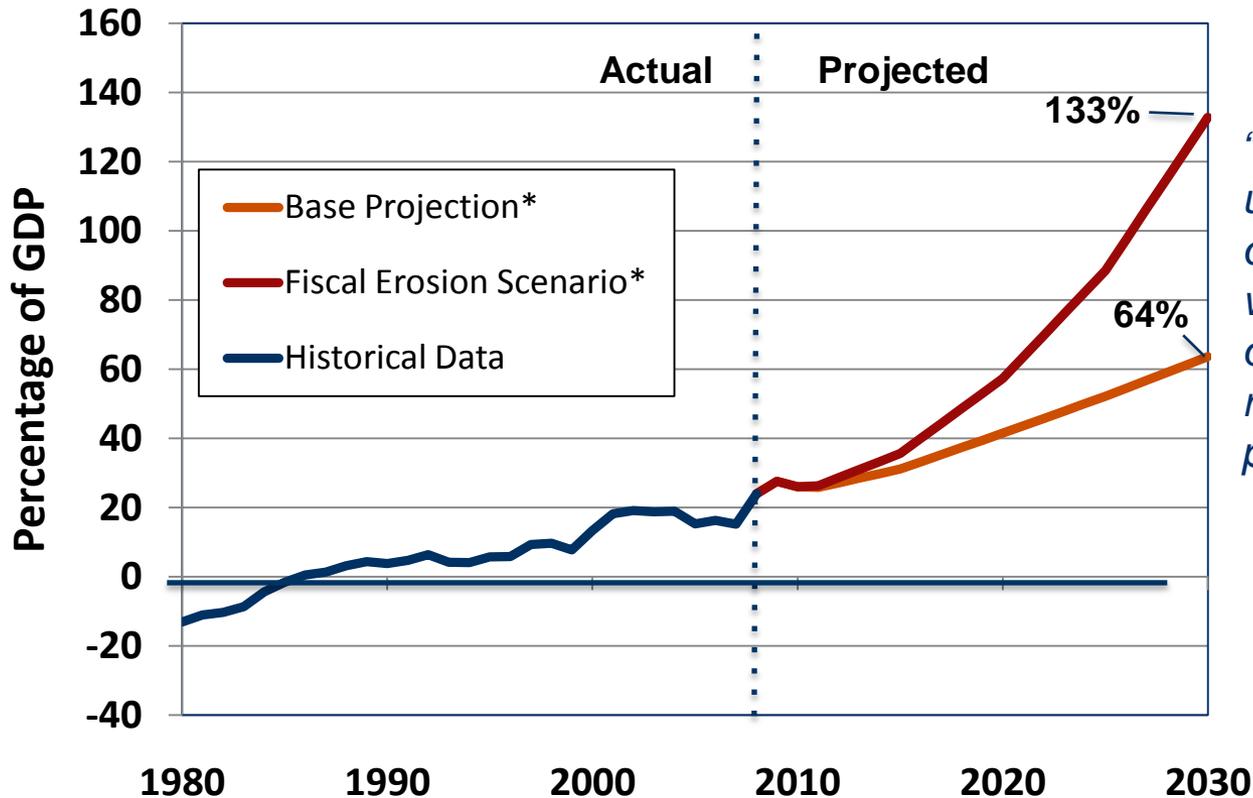
SOURCES: Data for 1970 and 1990 from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget*, Analytical Perspectives, February 2010. Data for 2010 from Department of Treasury, *Daily Treasury Statement* (February 26, 2010) and Treasury International Capital Reporting System, April 15, 2010 release. Compiled by PGPF.

NOTE: 2010 data reflects debt levels through February 2010.

## Chart 11: Historical and projected net amount of U.S. debt owed to foreign lenders (percentage of GDP)

The Peterson Institute for International Economics (PIIE) projects that the U.S. international payment imbalances and aggregate foreign debt are unsustainable under the baseline projections of the nonpartisan Congressional Budget Office. The projected imbalances are even worse based on more realistic assumptions. PIIE also suggests that the projected path is so unsustainable and dangerous that a crisis is virtually certain absent meaningful reforms.

## If current trends continue, the net amount of debt owed by Americans to foreign lenders would be staggering



*“The projected path is so unsustainable and dangerous that a crisis would virtually be certain to occur long before the U.S. reached such a painful point of reckoning.”*

William Cline,  
 Peterson Institute for  
 International Economics

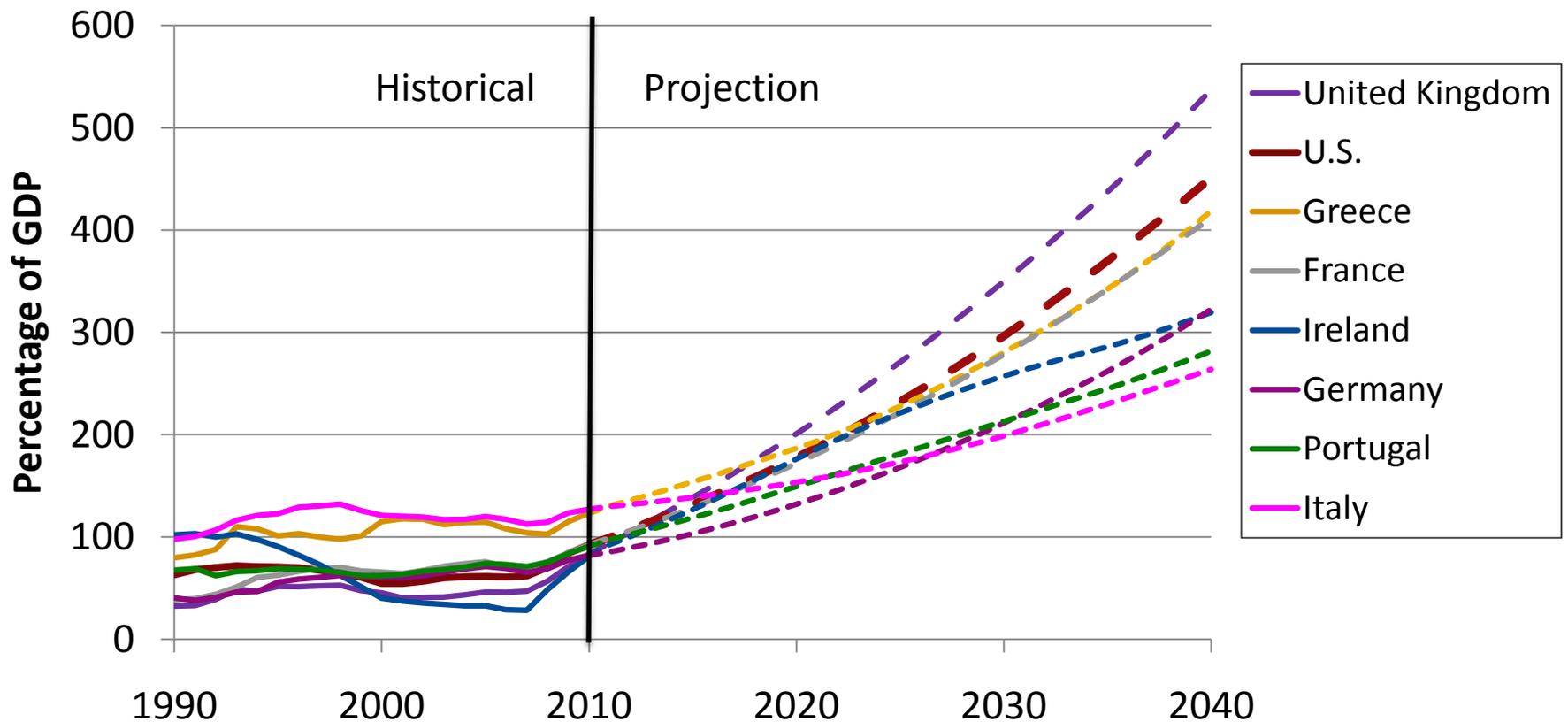
\*Scenarios developed by William Cline of the Peterson Institute for International Economics.  
 SOURCE: Bureau of Economic Analysis and William Cline, “Long-term Fiscal Imbalances, U.S. External Liabilities, and Future Living Standards,” in C. Fred Bergsten, ed., *The Long-term International Economic Position of the United States*, Peterson Institute for International Economics, 2009. Compiled by PGPF.

NOTE: Net external debt is U.S. private and public liabilities held by foreigners net of foreign assets held by the U.S.: a positive number means external liabilities are greater than external assets.

## Chart 12: Long-term international comparison of total government debt: 1990-2040 (percentage of GDP)

Current interest rates are low because global savings are sufficient to meet global lending requirements. However, the projected growth in total government debt is not unique to the United States. Total government debt as a percentage of GDP is projected to rise to unprecedented levels in many advanced economies. The implied future drain on resources would put serious pressure on global capital markets, could cause interest rates to rise dramatically, and impose severe adverse economic effects around the world.

# In the longer term, rising total government debt will be a global problem



SOURCE: Data from Stephen G. Cecchetti, M S Mohanty and Fabrizio Zampolli, Bank for International Settlements, Working Papers No 300, "The Future of Public Debt: Prospects and Implications": March 26, 2010. Compiled by PGPF.

NOTE: Total Government debt (also referred to as general government gross debt) measures all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date in the future. This includes central, state and local government debt.

## Chart 13: The U.S. government's explicit liabilities, commitments and unfunded social insurance promises

The total liabilities, unfunded Social Security and Medicare promises, and commitments and contingencies of the federal government more than tripled between 2000 and 2009. They added up to about \$62 trillion as of September 30, 2009, which is over \$200,000 per American and over \$500,000 per household. Medicare alone accounts for over \$38 trillion of the unfunded promises. These totals exclude the unfunded liabilities of Fannie Mae and Freddie Mac.

## The following table illustrates the U.S. government's explicit liabilities, commitments and unfunded social insurance promises

	In Trillions of Dollars	
	2000	2009
<b>■ Explicit liabilities</b>	<b>\$6.9</b>	<b>\$14.1</b>
■ Publicly held debt	3.4	7.6
■ Military & civilian pensions & retiree health	2.8	5.3
■ Other Major Fiscal Exposures	0.7	1.3
<b>■ Commitments &amp; contingencies</b>	<b>0.5</b>	<b>2.0</b>
■ E.g., Pension Benefit Guaranty Corporation, undelivered orders		
<b>■ Social insurance promises</b>	<b>13.0</b>	<b>45.8</b>
■ Future Social Security benefits	3.8	7.7
■ Future Medicare benefits	9.2	38.2
■ Future Medicare Part A benefits	2.7	13.8
■ Future Medicare Part B benefits	6.5	17.2
■ Future Medicare Part D benefits	--	7.2
<b>Total</b>	<b>\$20.4</b>	<b>\$61.9</b>

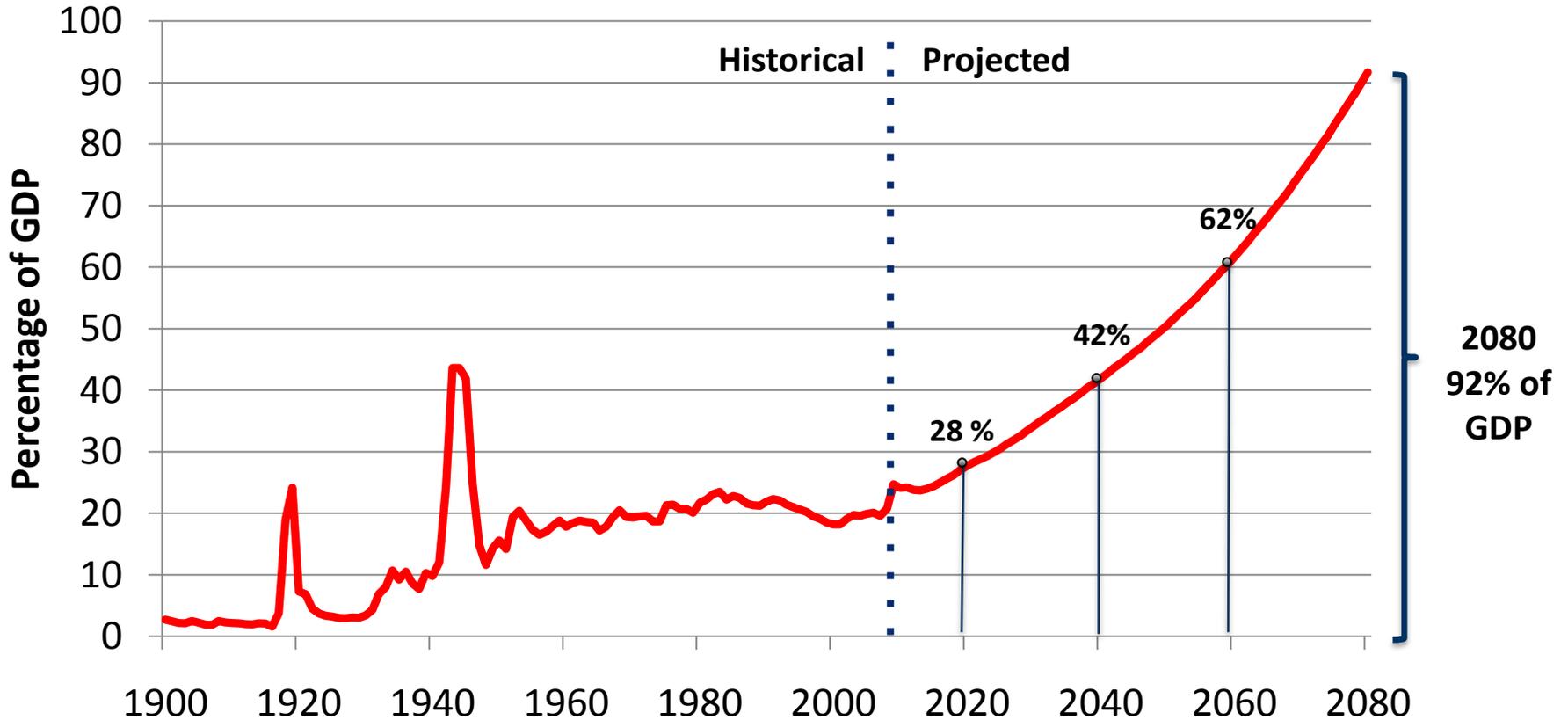
SOURCE: Data from the Department of Treasury, 2009 Financial Report of the United States Government. Compiled by PGPF.

NOTE: Numbers may not add due to rounding. Estimates for Medicare and Social Security benefits are from the Social Security and Medicare Trustees reports, which are as of January 1, 2009 and show social insurance promises for the next 75 years. Future liabilities are discounted to present value based on a real interest rate of 2.9% and CPI growth of 2.8%. The totals do not include liabilities on the balance sheets of Fannie Mae, Freddie Mac, and the Federal Reserve. Assets of the U.S. government not included. Does not include civil service and military retirement funds, unemployment insurance and debt held by other government accounts outside of Social Security and Medicare.

## Chart 14: Federal spending: 1900-2080 (percentage of GDP)

Absent policy reforms, total federal spending is projected to soar, growing from its historical average of about 20 percent of the overall economy to 42 percent in 2040. This spending and the resulting deficit path it implies are clearly imprudent and unsustainable, particularly given that revenues are projected to be about 18 percent of GDP.

## Federal spending is projected to soar far above its 50-year average of 20.5 percent of GDP if current policies remain unchanged

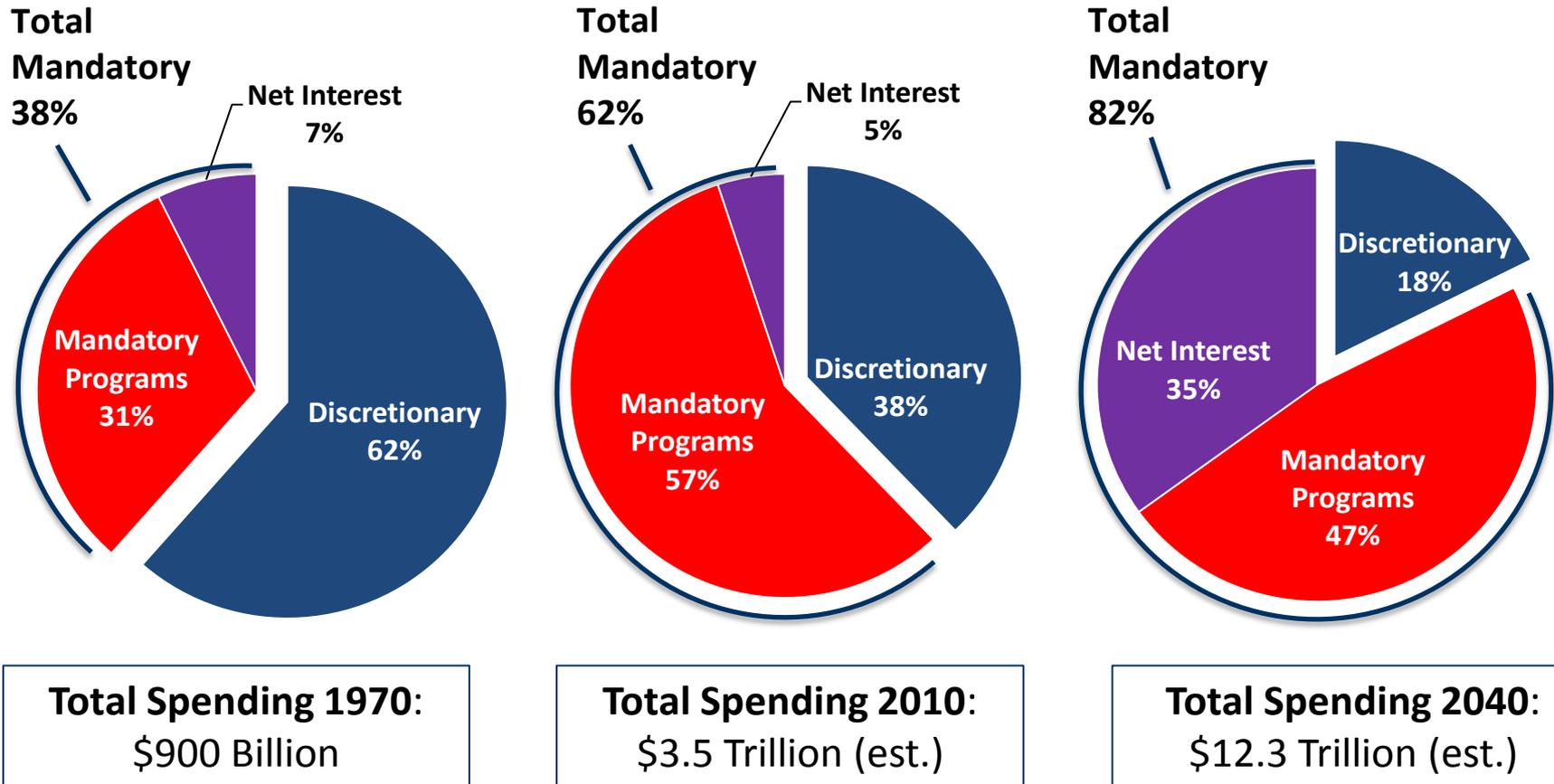


SOURCES: Data from the *Historical Statistics of the United States*, Millennial Edition Online, Cambridge 2006, the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010, and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*, January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

## Chart 15: Composition of federal spending: 1970, 2010 (est.), and 2040 (est.)

Total federal spending net of inflation has grown almost 300 percent since 1970. It is expected to grow by another 250 percent between now and 2040. At the same time, annually-appropriated programs such as education, transportation and law enforcement (discretionary spending), which includes all of the expressly enumerated responsibilities accorded to the federal government under the Constitution, has shrunk from 62 percent of the federal budget in 1970 to 38 percent today, and is projected to decline further yet, to 18 percent in 2040. Mandatory programs, such as Medicare and Social Security, automatically grow each year and do not require annual legislative action for funding.

# Mandatory programs and interest costs are taking over more and more of the federal budget, crowding out important discretionary programs



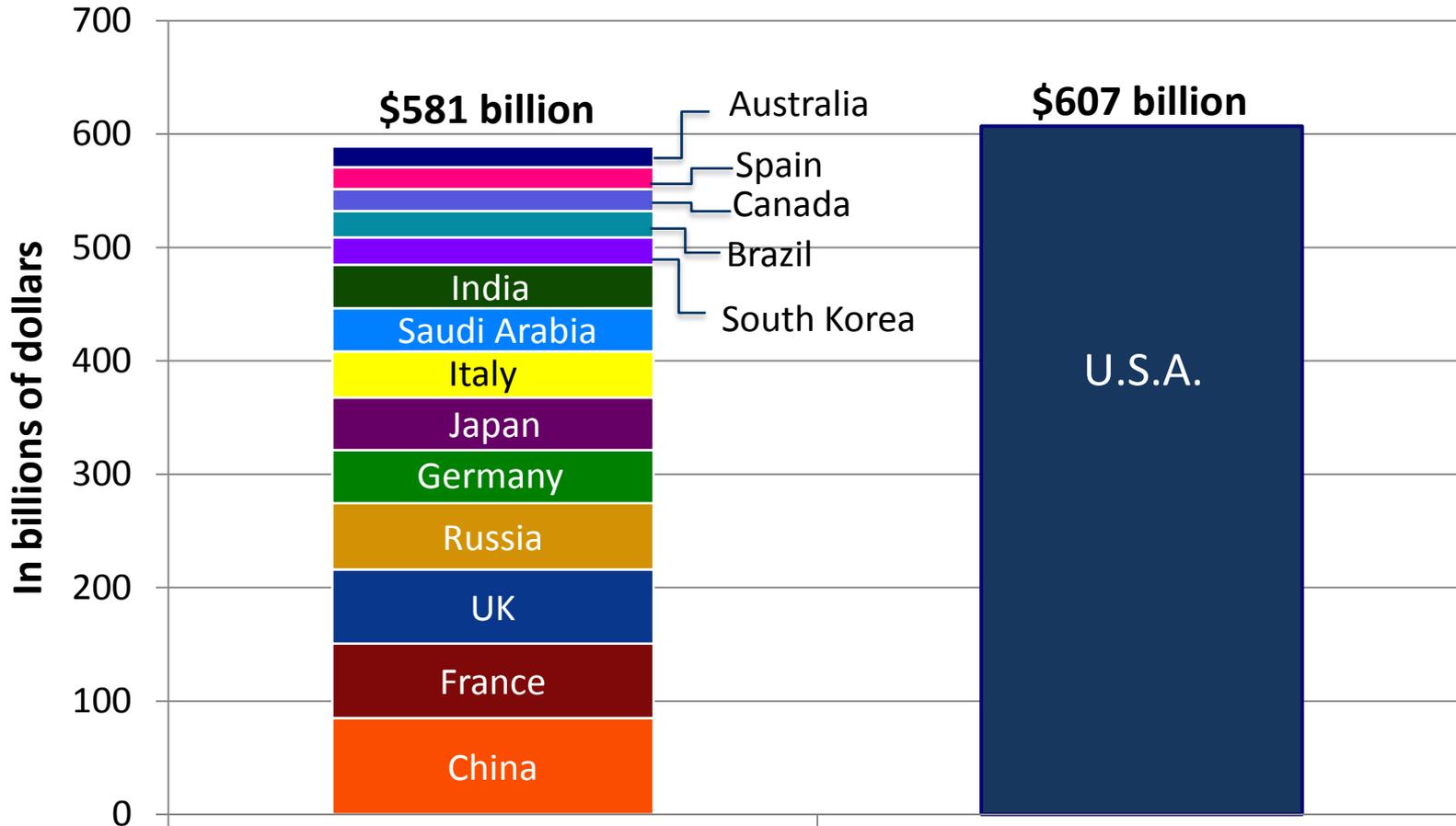
SOURCES: Data derived from the Office of Management and Budget, *FY 2011 Budget, Historical Tables*, February 2010; and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*, January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Calculated by PGPF.

Notes: Data are in constant 2009 dollars. Mandatory programs include Social Security, Medicare, Medicaid and other entitlement programs.

## Chart 16: International comparison of countries with highest military expenditure in 2008

The United States spent more on defense in 2008 than did the countries with the next 14 highest defense budgets combined. This is due in large part to the U.S. assuming a greater role in global security while many other major nations have cut their defense budgets. Whether or not the U.S. can or should afford to continue to bear a disproportionate responsibility for global security is a major policy issue.

# The U.S. spent more on defense in 2008 than did the countries with the next 14 highest defense budgets combined

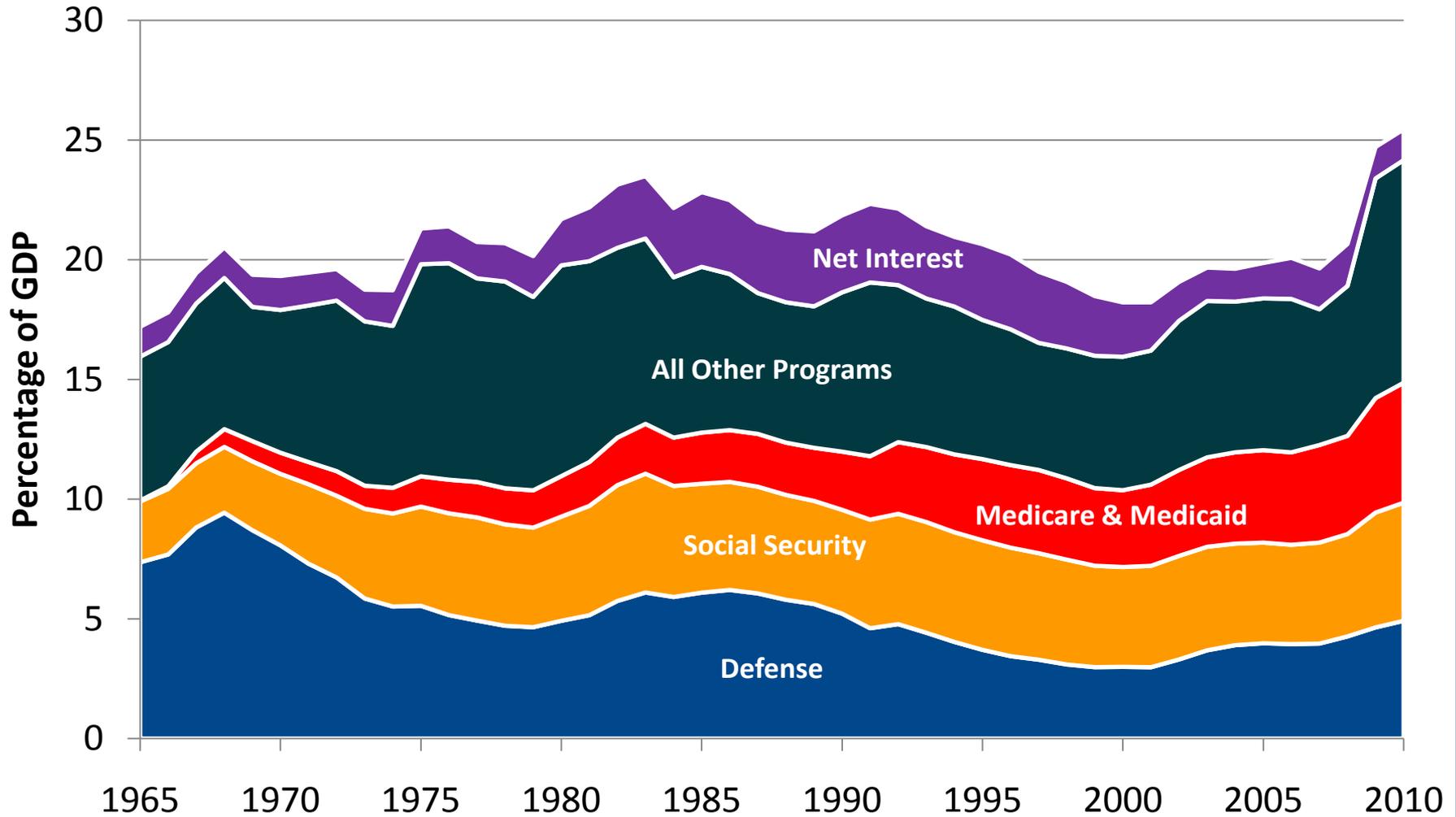


SOURCE: Data from Stockholm International Peace Research Institute, *15 Major Spender Countries in 2008*. Compiled by PGPF.

## Chart 17: Historical spending growth by major category: 1950-2010 (percentage of GDP)

Since 1950, the federal budget has changed from being dominated by defense spending to being dominated by social insurance program spending (e.g., Medicare, Medicaid and Social Security). During the past 45 years, the relative decline in defense spending as a percentage of the economy has been more than offset by a rise in spending on social insurance programs.

# Growth in Social Security, Medicare and Medicaid have more than offset declines in defense since the late 1960s

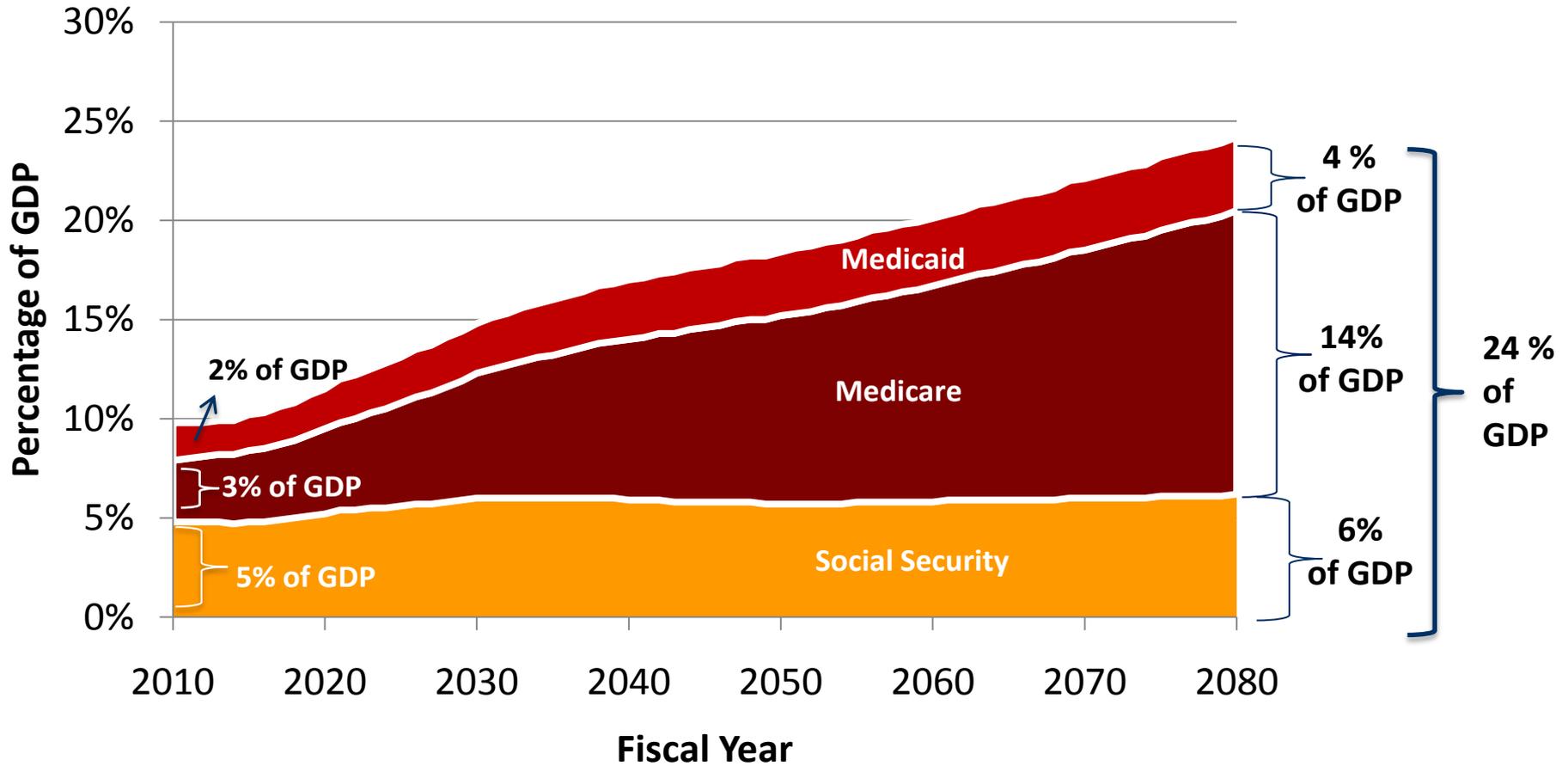


SOURCE: Data from the Office of Management and Budget, *FY 2011 Budget, Historical Tables*, February 2010. Compiled by PGPF.

## Chart 18: Projected growth in Medicare, Medicaid and Social Security: 2010-2080 (percentage of GDP)

Absent reforms, Social Security, Medicare and Medicaid are projected to more than double as a percentage of the U.S. economy within the next 50 years. Medicare and Medicaid alone are expected to triple, rising from five percent of GDP in 2010 to about 15 percent by 2060, whereas Social Security is only expected to rise from about five percent to six percent of GDP during the same period. The growth in the Medicare and Medicaid programs therefore represents the dominant challenge to the federal government's fiscal future.

# Social Security, Medicare and Medicaid, the three largest entitlement programs, are projected to more than double as a percentage of GDP under current policies

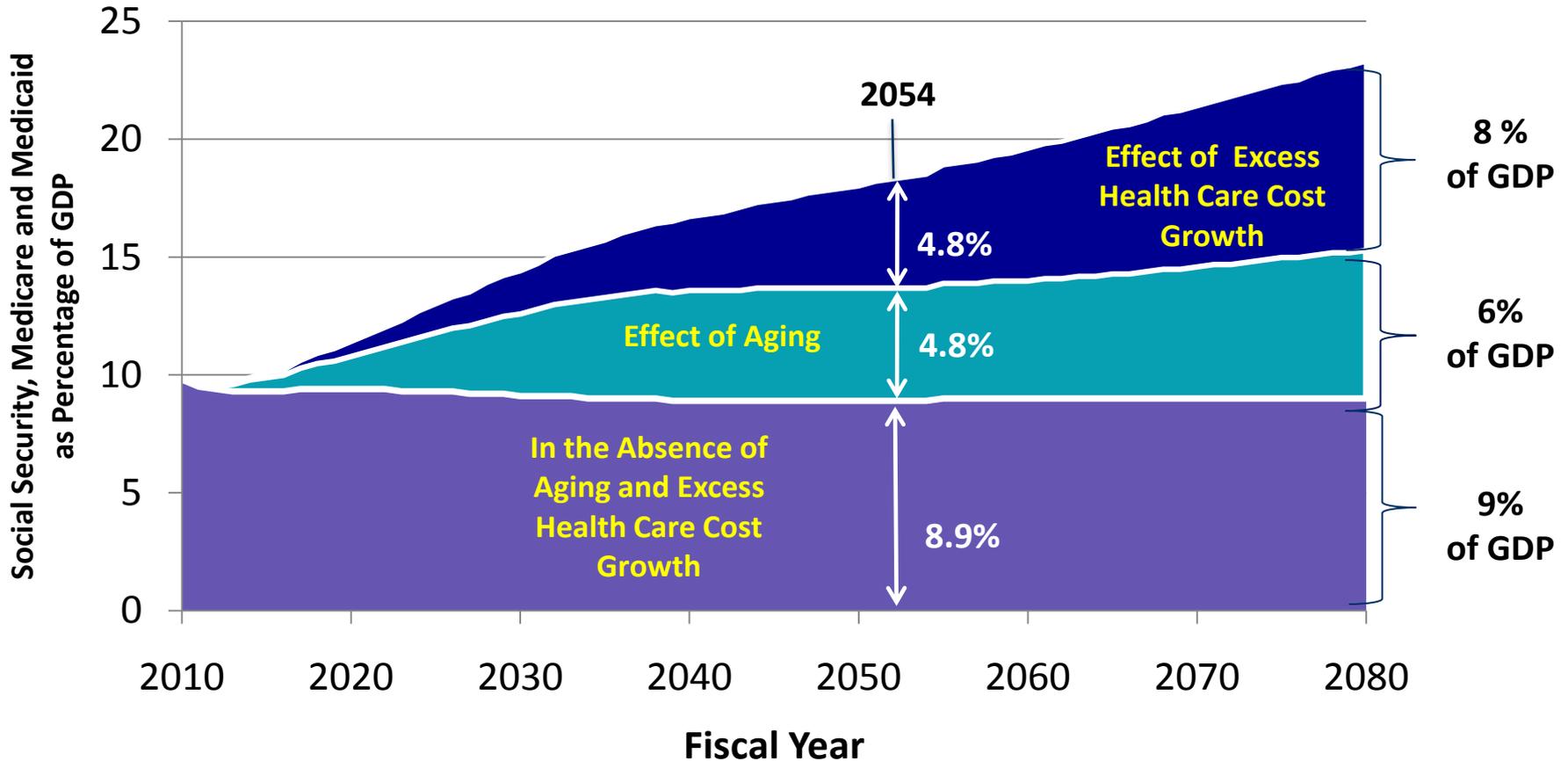


SOURCE: Data from the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office Assumptions. Compiled by PGPF.

## Chart 19: Contributing factors in projected growth for Medicare, Medicaid and Social Security: 2010-2080 (percentage of GDP)

The aging of the U.S. population dominates the growth in projected social insurance program spending (i.e., Medicare, Medicaid and Social Security) until around 2050. After that point, the growth in health care costs will take over as the single largest driver of social insurance program spending.

Aging drives most of the projected cost growth in Social Security, Medicare and Medicaid until 2054. After that year, health care costs takes over as the leading driver of spending growth.



SOURCE: Data from the Congressional Budget Office, *The Long-Term Budget Outlook*, June 2009. Compiled by PGPF.

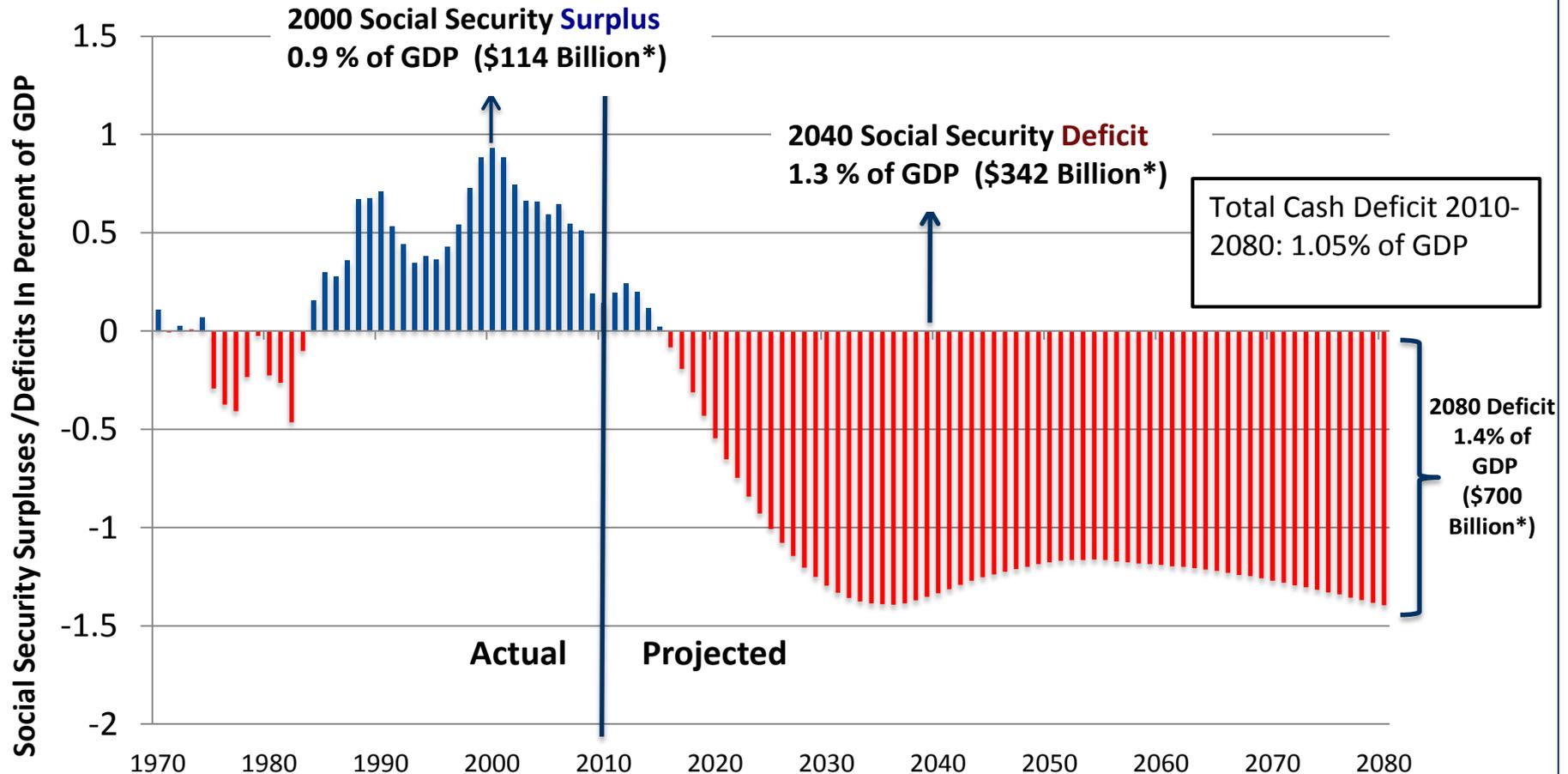
NOTE: "Excess health care cost growth" is the amount growth in age-adjusted health care costs per person exceeds the growth in per capita GDP.

## Chart 20: Projected Social Security trust fund cash flows: 1970-2080 (percentage of GDP)

The Social Security program ran annual cash surpluses from 1984 through 2009. These surpluses reduced the deficits and public financing needs of the federal government. They were spent on other government operations in all but the year 2000 and replaced with non-marketable federal government bonds.

A March 2010 report from the Congressional Budget Office projected that the Social Security program would run cash flow deficits through 2013. In less than 10 years, Social Security is projected to run permanent and growing cash deficits—growing to \$342 billion in constant 2009 dollars by 2040, and even more beyond. These cash flow deficits will only add to the federal government's fiscal challenge.

# In the future, persistent cash deficits are projected for Social Security



SOURCE: Data from the Social Security Administration, *Provisions Affecting Payroll Tax Rates: 2009*. Compiled by PGPF.

NOTE: CBO projections show negative cash deficits in 2010 and 2011. Excludes interest earnings.

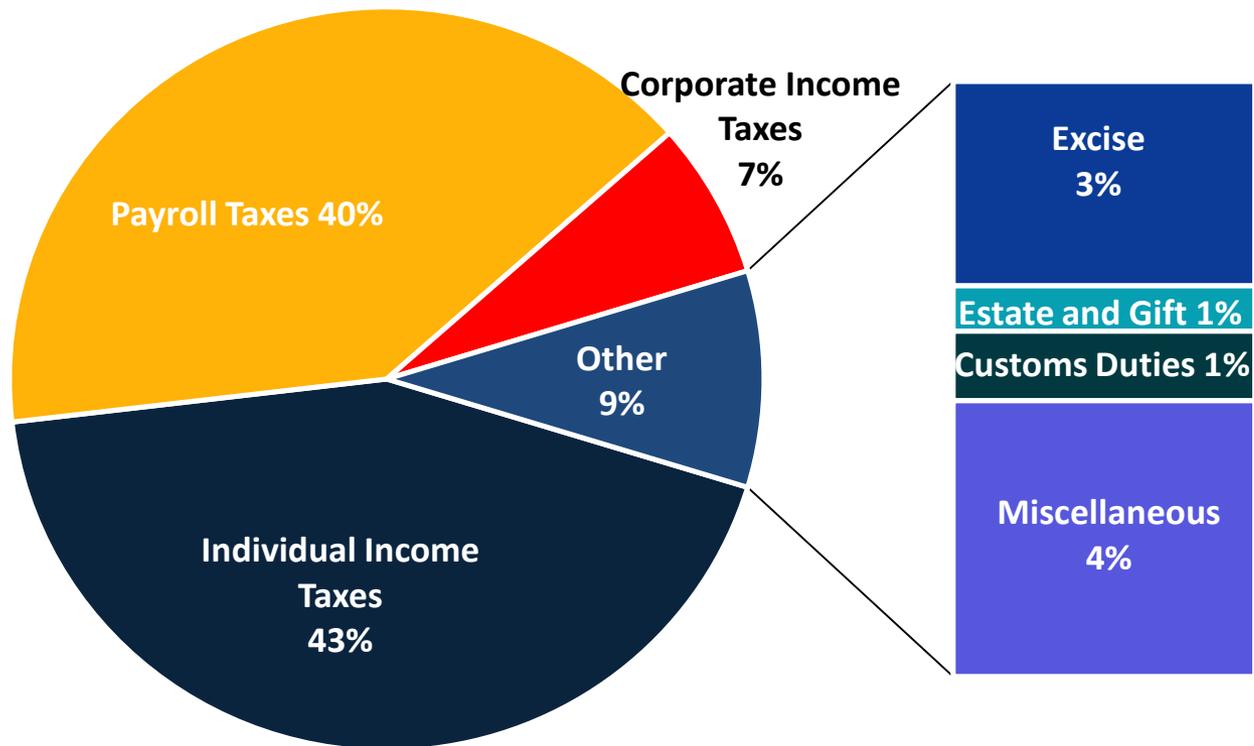
\* In 2009 Dollars.

## Chart 21: Composition of revenues: 2010

The federal government raises revenues in several different ways. Individual income and payroll taxes combined are expected to provide about 83 percent of total federal government revenues in 2010. Corporate income taxes are expected to provide about seven percent, and the other nine percent will come from a variety of other sources.

# Individual income and payroll taxes comprise most of federal receipts

**2010: Total Revenues  
\$2,177 billion**



SOURCE: Data from the Congressional Budget Office, *Preliminary Analysis of the President's Budget*, March 2010. Compiled by PGPF.

## Chart 22: Top 5 largest tax expenditures

Tax preferences are referred to as “tax expenditures”. They are not subject to a budget, periodic review nor reevaluation. This gives them a clear advantage when policymakers set budget priorities. The five largest individual tax expenditures (e.g., deductions, exemptions, credits, and exclusions) are expected to result in about \$573 billion foregone federal revenues in 2010. Total “tax expenditures” are estimated to be over \$1 trillion.

The largest individual tax expenditure is the exclusion of employer-provided health insurance from individual income and payroll taxes. This tax expenditure is expected to result in \$262 billion in revenue losses. The second and third largest tax expenditures were for the exclusion of pension contributions and earnings (\$122 billion) and the deduction of mortgage interest in owner-occupied homes (\$92 billion).

“Tax expenditures,” (deductions, credits, and other special provisions) total an estimated \$1 trillion annually and provide substantial benefits that are not reflected in the budget

Top 5 Tax Expenditures	Estimated Tax Revenue Foregone (FY 2010)
1. Exclusion of employer provided health insurance from taxable income.*	\$262 billion
2. Exclusion of pension contributions and earnings.**	\$122 billion
3. Deduction of mortgage-interest on a primary residence.	\$92 billion
4. Deduction of non-business state and local taxes (includes income, property and sales taxes)	\$53 billion
5. Capital gains (except agriculture, timber, iron ore, and coal).***	\$45 billion
<b>Total of Top 5</b>	<b>\$573 billion</b>

SOURCE: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Analytic Perspectives*, February 2010. Compiled by PGPF.

NOTE: Numbers may not add due to rounding.

\* Includes the exclusion from payroll taxes and income taxes.

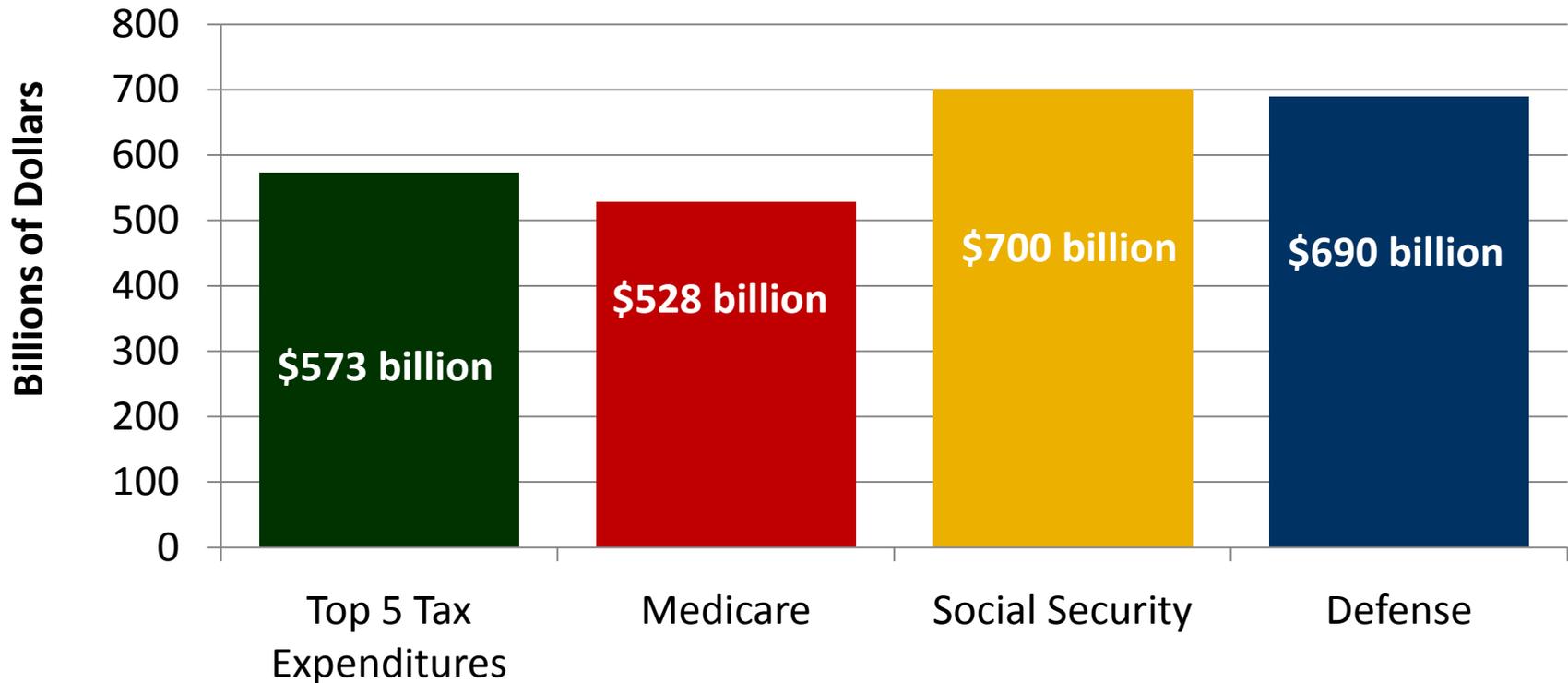
\*\* Includes employer pension plans, employee and employer contributions to 401k plans, IRAs, and Keough plans.

\*\*\* In addition, the biodiesel producer tax credit results in a \$200 million reduction in excise tax receipts in 2010.

## Chart 23: Relative size of the top 5 tax expenditures to large spending areas

The estimated revenue to be foregone in 2010 that will be attributable to the five largest individual tax preferences exceeds the amount of federal money that will be spent on Medicare, and is nearly as large as the amount of federal money that will be spent on either Social Security or national defense.

## The value of the five largest tax expenditures is sizeable relative to major spending programs in 2010



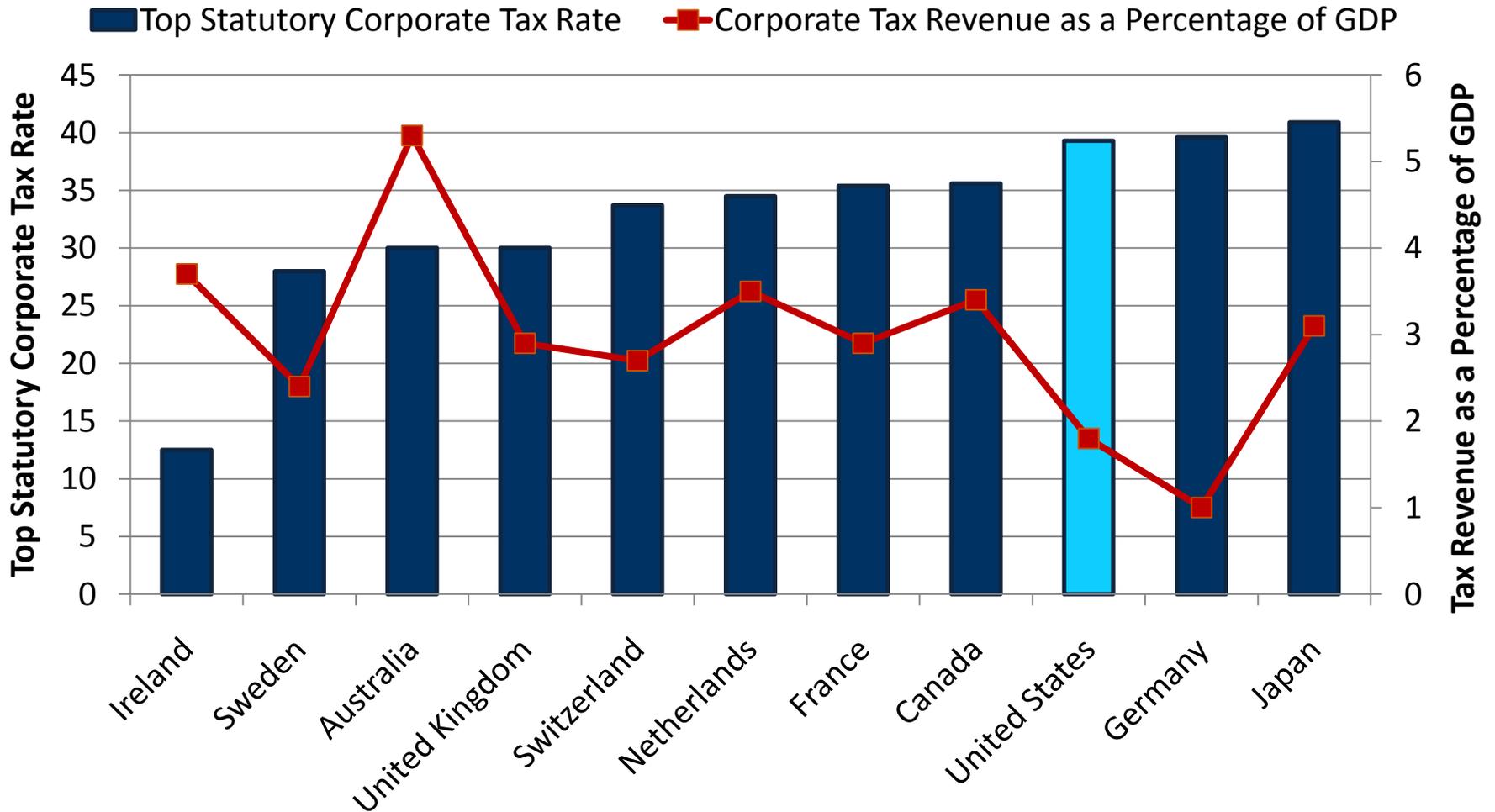
SOURCE: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Analytic Perspectives*, February 2010.

NOTE: Health Insurance, Retirement Saving, Mortgage Interest, and State & Local taxes are categories of spending that reduce taxable income.

## Chart 24: International comparison of statutory corporate tax rates and corporate revenue (percentage of GDP)

Although the top corporate income tax rate as set in U.S. tax laws is one of the highest among other advanced economies, the U.S. collects the lowest amount among them in corporate tax revenue as a percentage of GDP. This is likely due to a high number of exemptions and corporate tax expenditures available to multinationals with substantial operations in the United States. In addition, to avoid high U.S. tax rates, companies may move operations abroad to take advantage of lower rates. Simplifying the corporate tax system in the future may increase revenues and improve efficiency.

# Despite its high corporate tax rates, the U.S. raises the least amount of corporate tax revenue as compared to other advanced countries



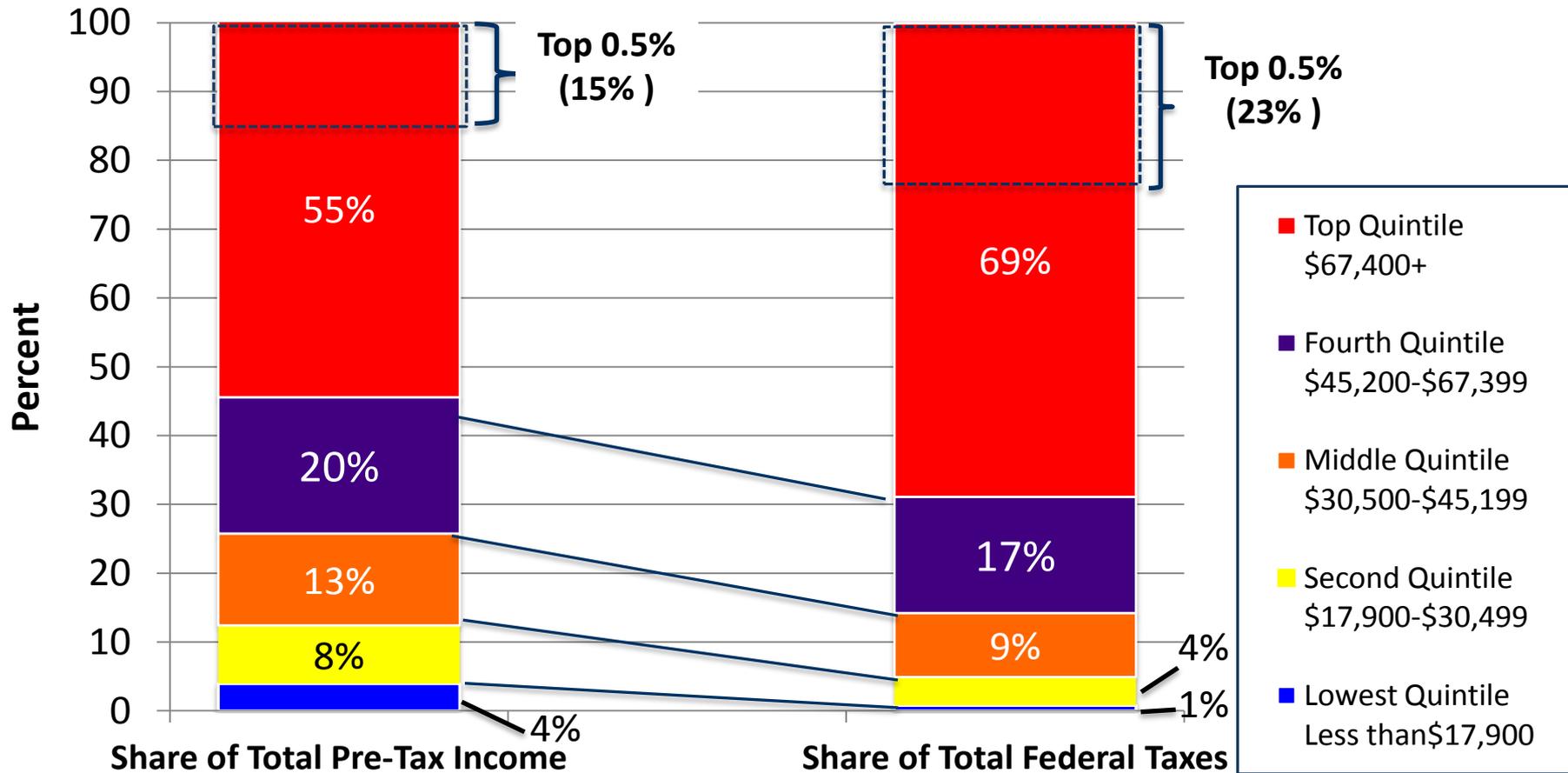
SOURCE: Data from the Congressional Budget Office *Corporate Income Tax Rates: International Comparisons* 11/05. Compiled by PGPF.

## Chart 25: Share of pre-tax income and total federal taxes by quintile

The top 20 percent of households earn 55 percent of all income, and pay about 69 percent of all federal taxes (income and payroll taxes, estate taxes, excise taxes, etc.). The top one-half of one percent of taxpayers earn 15 percent of total income and pay about 23 percent of all federal taxes, whereas the bottom 60 percent of taxpayers earn 25 percent of total income while paying only about 14 percent of all federal taxes.

These figures demonstrate the progressive nature of the federal tax system, since higher income households pay a much greater share of their incomes in taxes than do lower-income ones. In addition, after tax refunds, over 40 percent of current individual income tax filers do not pay any income taxes and 13 percent have zero tax liability from income and payroll taxes combined due to tax credits and exemptions.

# High-income households earn a disproportionate share of pre-tax income and pay a disproportionate share of total federal taxes



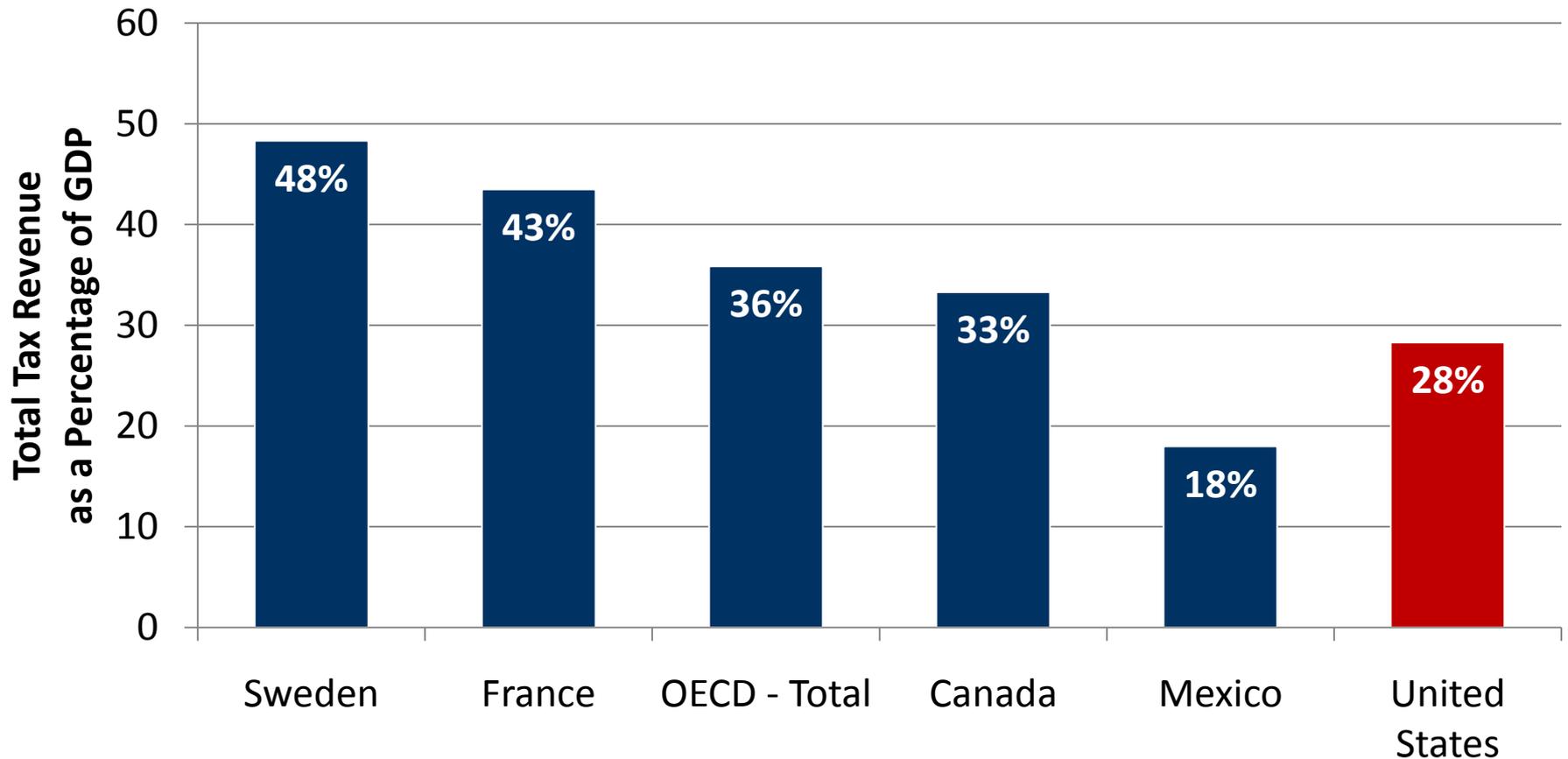
SOURCE: Congressional Budget Office, *Historical Effective Tax Rates: 1979- 2005: Additional Data on Sources of Income and High-Income Households* December 2008. Compiled by PGPF.

NOTE: Data for 2005 in 2005 dollars.

## Chart 26: International comparison of tax burdens

Contrary to popular opinion, total (i.e., federal state and local) tax burdens in the United States are considerably lower than in many other major industrialized nations. The average total tax burden in the U.S. is 28 percent versus an average of 36 percent for the 30 member nations of the Organization of Economic Cooperation and Development (OECD), of which the U.S. is a member.

## Total tax burdens are lower in the U.S. than many other industrial countries



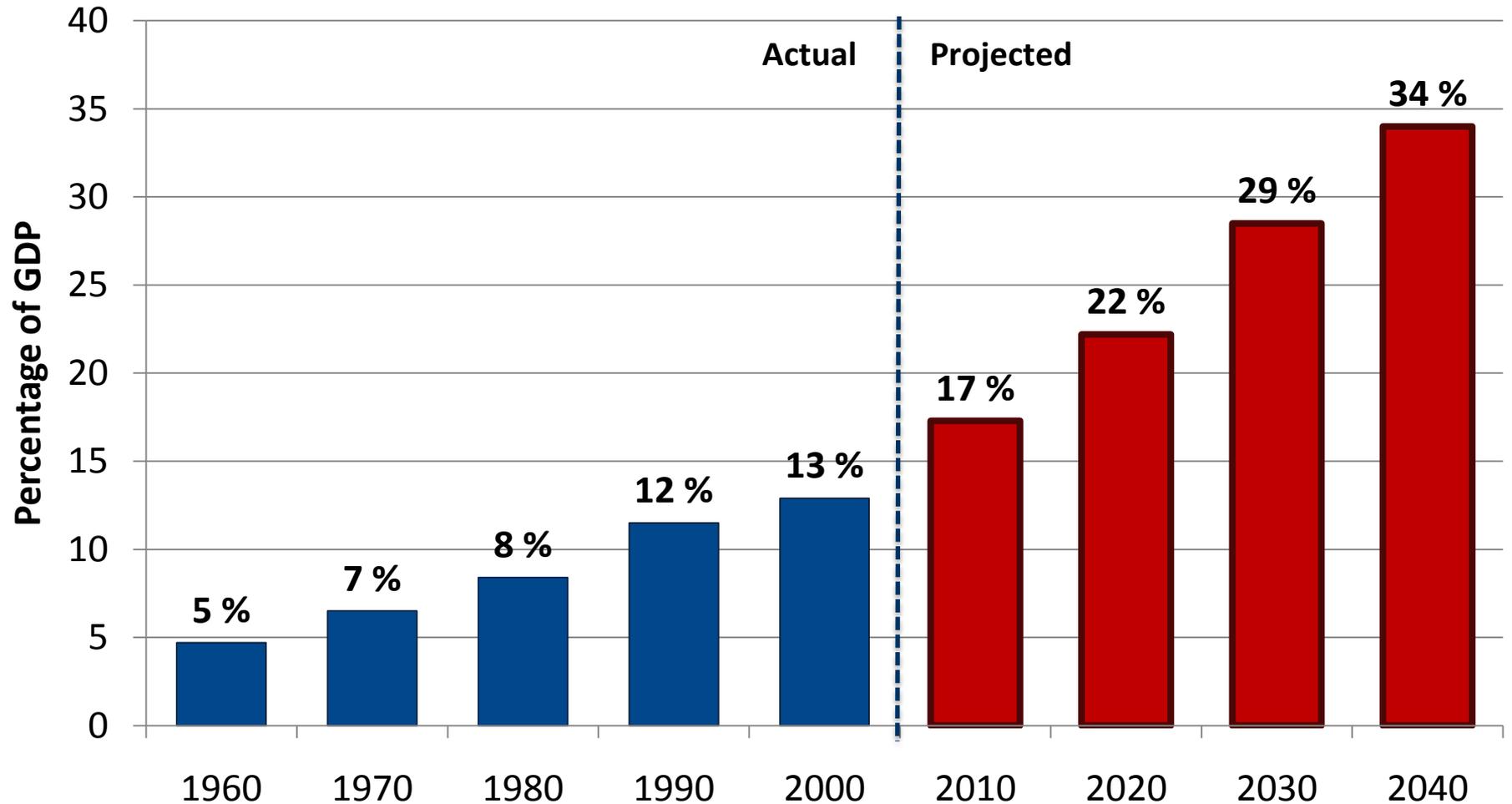
SOURCE: Data from OECD Statistics Extract. Compiled by PGPF.

NOTE: Data for each country is as of 2007. OECD is the Organization of Economic Cooperation and Development. Total tax revenue includes federal, state and local.

## Chart 27: Federal health expenditures: 1960-2040 (as percentage of GDP)

Health care expenditures in the U.S. have risen rapidly, and, absent meaningful cost-related reforms, they are expected to double as a percentage of the overall economy by 2040. Increased health care expenditures crowd out federal investments in other important areas, including children's health and education, basic research and critical infrastructure. They also serve to limit the ability of employers who offer health plans to provide additional compensation, such as wage increases, pension contributions, or other employee benefits.

## Total U.S. health expenditures (both public and private) are projected to soar to more than one-third of the economy by 2040

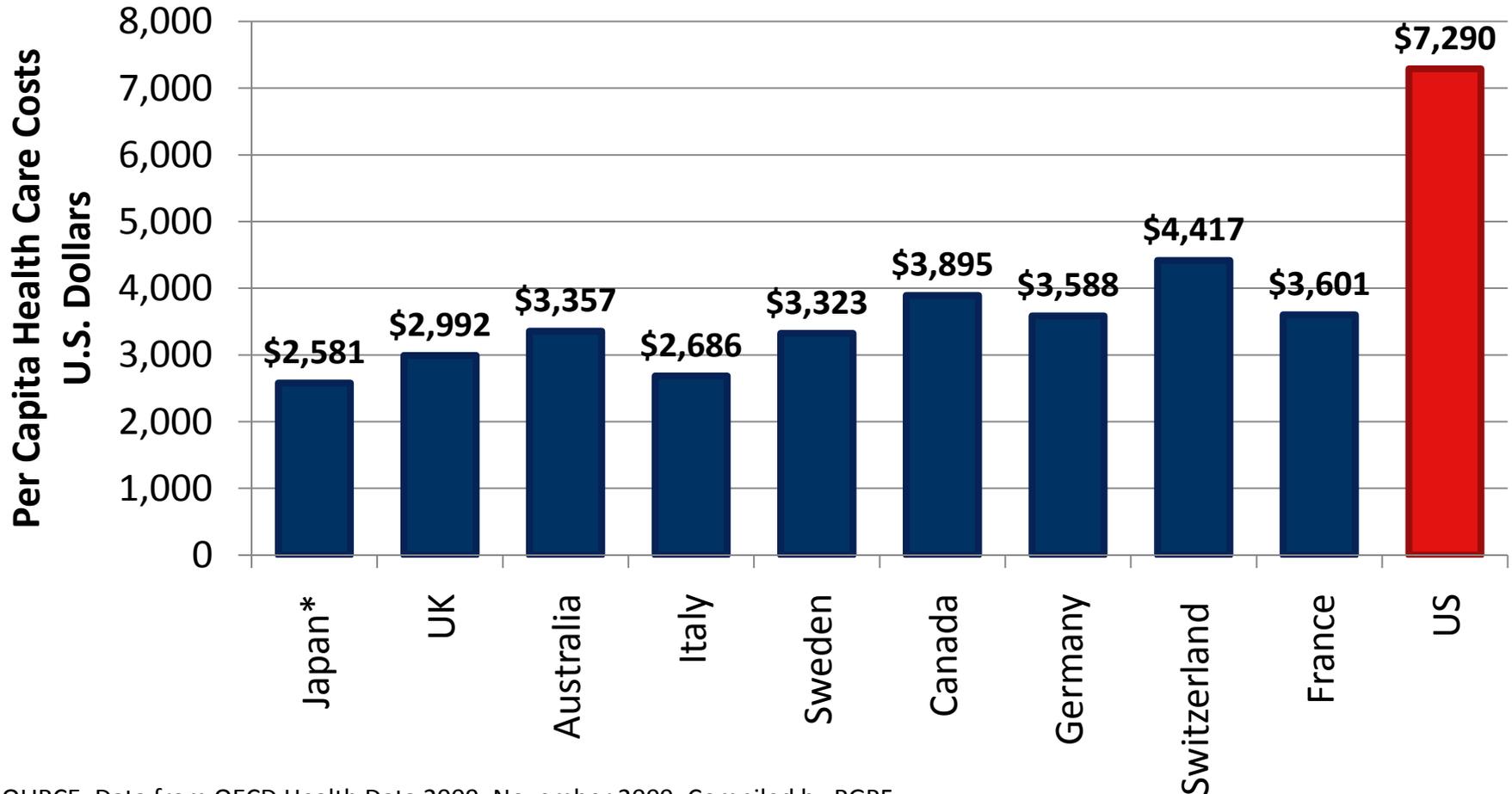


SOURCE: Data from the Congressional Budget Office, *The Long-Term Fiscal Outlook*: June 2009. Compiled by PGPF.

## Chart 28: International comparison of health care costs per capita (U.S. dollars)

Per person costs of health care in the U.S. are more than double those of many other major industrialized nations. These higher costs are due to a variety of factors, including: physician compensation levels, excess hospital capacity, proliferation of medical technology, variances in procedure approaches, and fee for service reimbursement approaches.

Currently, Americans spend about twice as much per capita on health care than other OECD countries with no appreciable difference in health outcomes



SOURCE: Data from OECD Health Data 2009, November 2009. Compiled by PGPF.

NOTE: Per capita health expenditures in 2007, unless otherwise noted. Comparison uses Purchasing Power Parity, which adjusts exchange rates to assume identical price of goods in different countries.

\*Japan data from 2006.

## Chart 29: Selected US health outcomes ranked against other nations

While the United States spends about twice what other industrialized nations spend per person on health care, we lag behind in a number of key outcome-based measures. This is an indication that we are not getting good societal value for the amount of money spent. It also suggests that our current health care system is broken and in need of fundamental reform.

Generally, while the U.S. spends more on health care than other countries, its health outcomes are no better

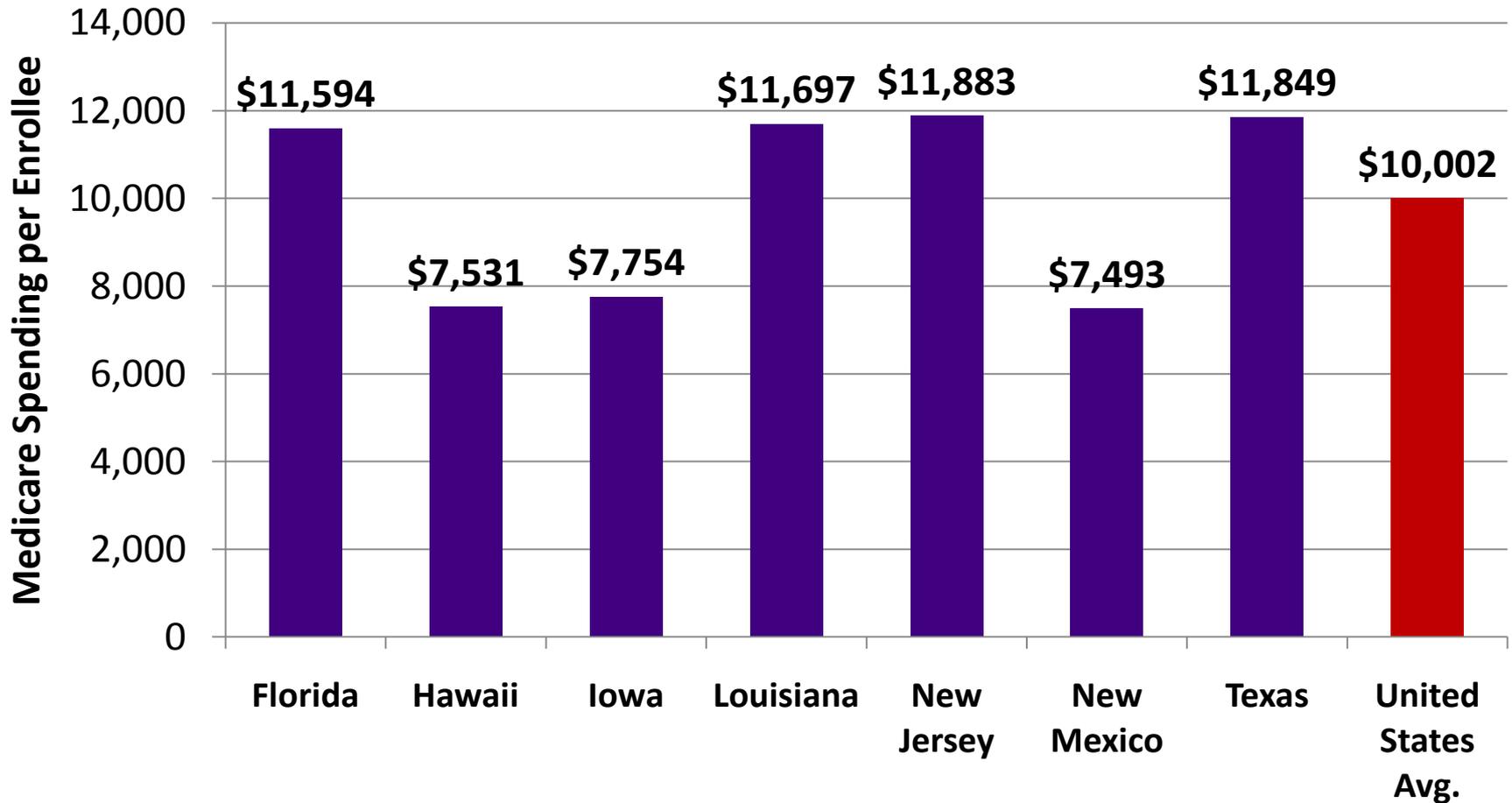
Outcome	Rank (out of countries reporting)
<b>Heart Attacks</b> <ul style="list-style-type: none"> <li>U.S. = 4% deaths per 100 people in 2005</li> </ul>	9 <sup>th</sup> out of 23
<b>Life Expectancy at 65</b> <ul style="list-style-type: none"> <li>U.S. = 17.4 years for men (2006)</li> <li>20.3 years for women (2006)</li> </ul>	19 <sup>th</sup> out of 30, men 15 <sup>th</sup> out of 30, women
<b>Infant Mortality</b> <ul style="list-style-type: none"> <li>U.S. = 0.7% deaths per live birth in 2006</li> </ul>	28 <sup>th</sup> out of 30
<b>Obesity</b> <ul style="list-style-type: none"> <li>U.S. = 34% over age 15 in 2006</li> </ul>	14 <sup>th</sup> out of 14

SOURCE: Data from OECD *Health Data 2009*, November 2009. Compiled by PGPF.

## Chart 30: Comparison across U.S. states of Medicare costs per person

Medicare spending per beneficiary varies considerably in different regions of the country. This is due to a combination of several factors: the fee-for-service payment system that pays for procedures rather than outcomes, the variances in prevailing medical practices in different parts of the country, and the lack of a fixed budget for the program as a whole.

## Medicare spending per beneficiary varies substantially across states

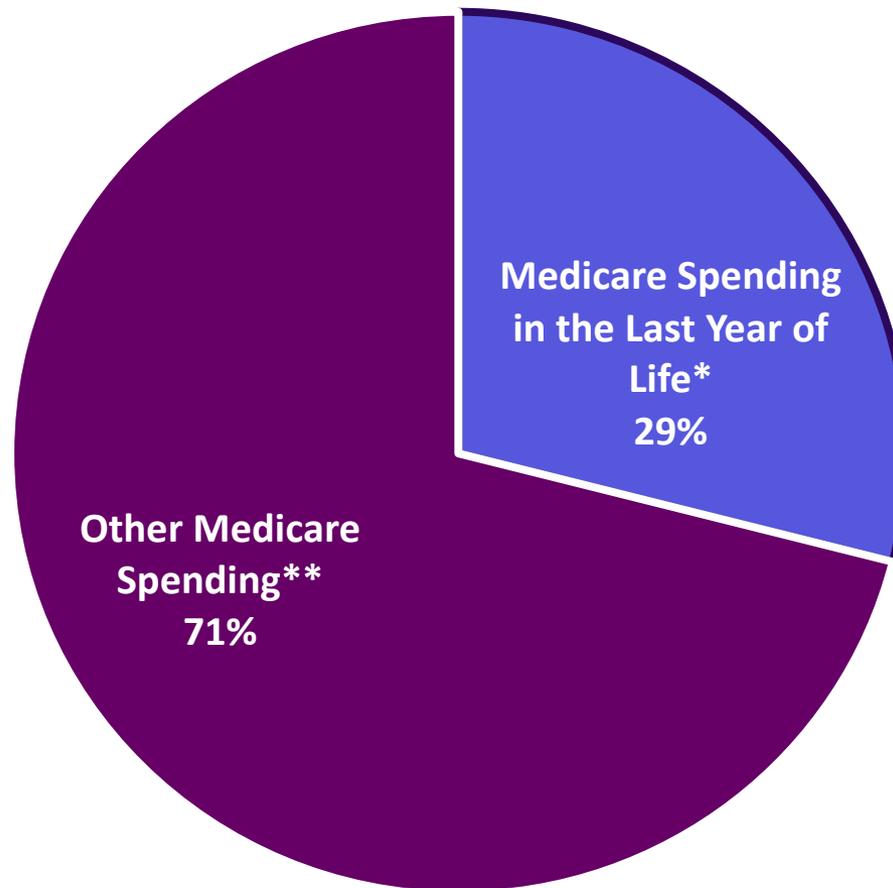


SOURCE: Data derived from the Center for Medicare and Medicaid Services, *National Health Expenditures: 2008*. Calculated by PGPF.  
NOTE: Data estimated for 2009, the most recent available, uses average annual growth rates from 1991-2004.

## Chart 31: Portion of Medicare spending that go towards services in the last year of life

Almost 30 percent of annual Medicare spending goes toward people in their last year of life. Some of this spending does not necessarily promote better health outcomes.

## Almost three out of every ten Medicare dollars is spent for people who are in the last year of life

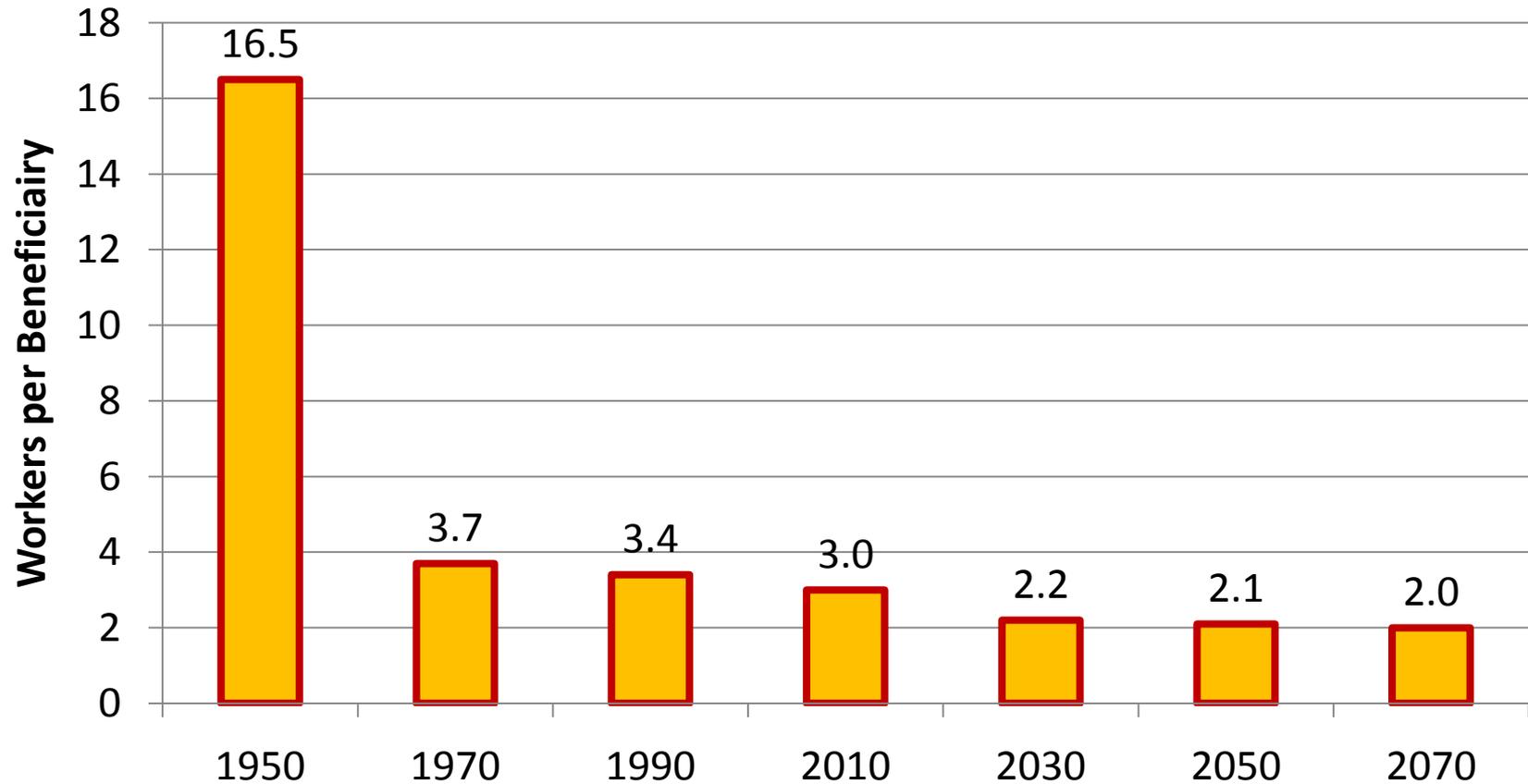


SOURCE: Data from the Center for Medicare & Medicaid Services, Office of the Actuary *Last Year of Life Study*. Compiled by PGPF.  
NOTE: Data estimated for 2009, the most recent available. \*Decedents. \*\*Survivors.

## Chart 32: Ratio of covered workers to beneficiaries: 1950-2070

The ratio of workers to Social Security beneficiaries has declined dramatically since 1950, and it is expected to decline further in the future. There were over 16 workers covered under Social Security for each beneficiary in 1950. That ratio is now 3 to 1, and it is expected to decline further to roughly 2 to 1 by 2030.

## As the population ages, there will be many fewer covered workers for each Social Security beneficiary

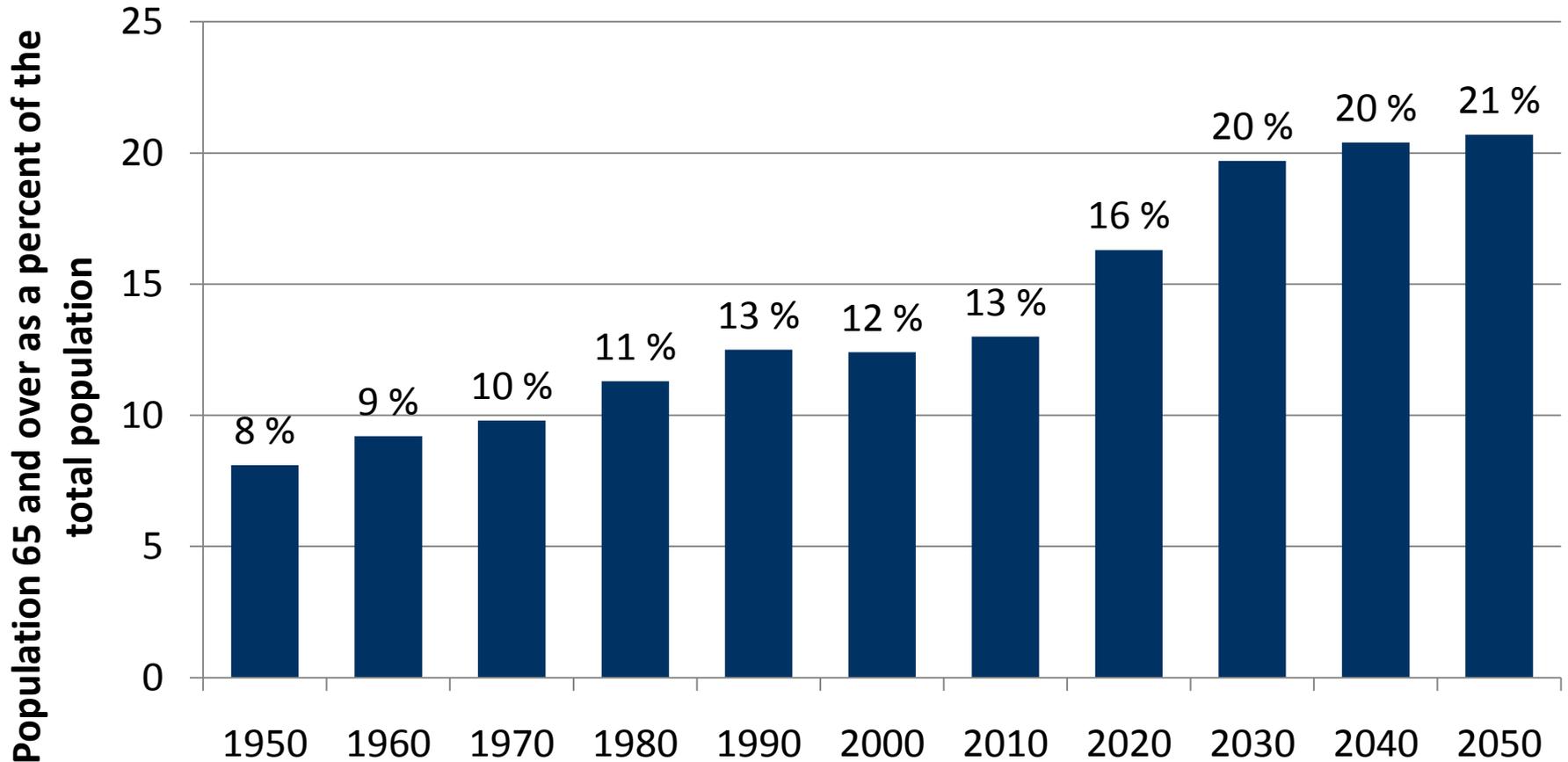


SOURCE: Data from the Social Security Administration *2009 Trustees Report*. Compiled by PGPF.

## Chart 33: Population 65 and older as a percentage of total population: 1950-2050

Within a decade, the overall U.S. population is projected to resemble the current demographic profile of Florida. In other words, nearly 1 out of every 5 people will be age 65 or older, just as Florida is today.

As the baby boomers retire, the result will be a nation of Floridas.  
(Currently almost 1 out of every 5 Florida residents is ages 65 or  
above.)

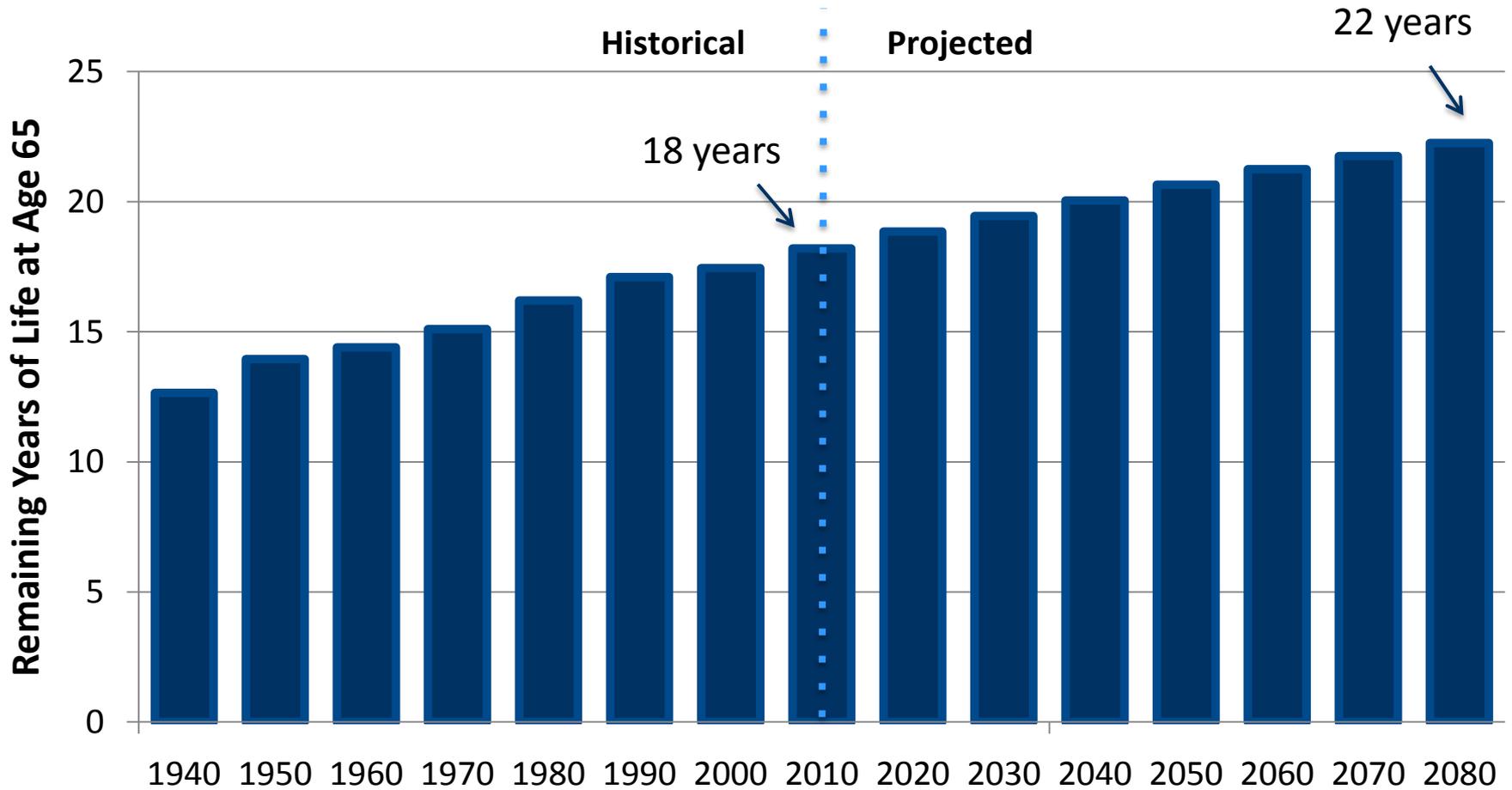


SOURCE: Data from the OECD, *Factbook 2009*. Compiled by PGPF.

## Chart 34: Historical and projected longevity of those 65 and older: 1940- 2080

Americans are living longer than they used to, and this trend is only expected to continue into the future. Compared with 65-year-olds in 1940, today's 65-year olds live 50 percent longer and people who will be 65 in 2085 are expected to live 80 percent longer.

At age 65, people today are expected to live (and collect benefits) an additional 5.6 years longer than they did in 1940. By 2080, they are projected to live an additional 10 years longer than in 1940.

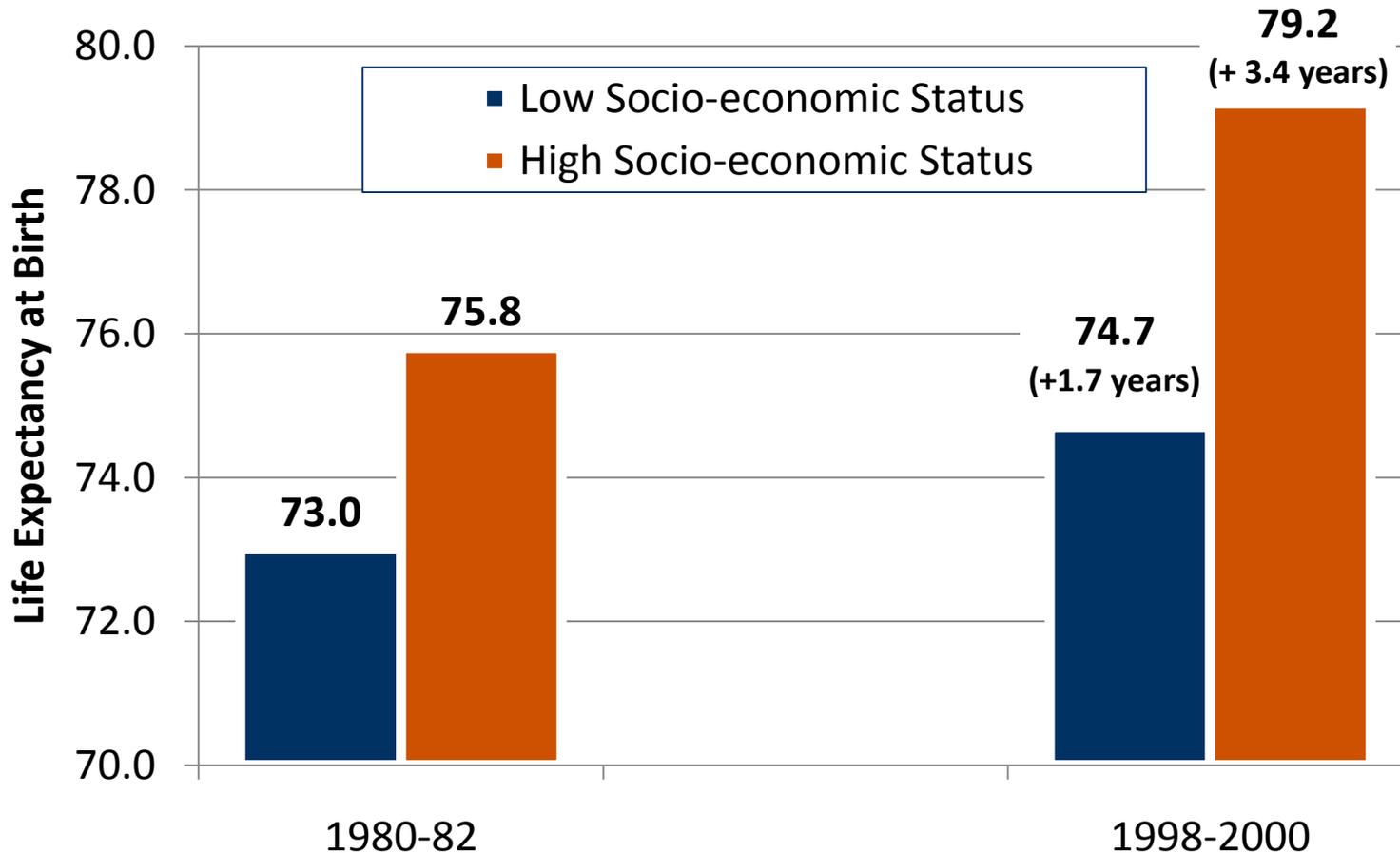


SOURCE: Data from the Social Security Administration, *Trustees Report: 2009*. Compiled by PGPF.

## Chart 35: Variations in life expectancy at birth by socio-economic status

Life expectancy has continued to increase since the last major Social Security reform was enacted into law in 1983. There has, however, been a difference in the amount of increase by socio-economic status (which includes different factors such as education, wealth, occupation and income)—that is, the life expectancy of those with a higher socio-economic status has grown faster than the life expectancy of those with a lower one. This disparity should be considered in connection with any social insurance reform initiatives.

## Over the last two decades, improvements in life expectancy at birth have been greater for those with higher socio-economic status

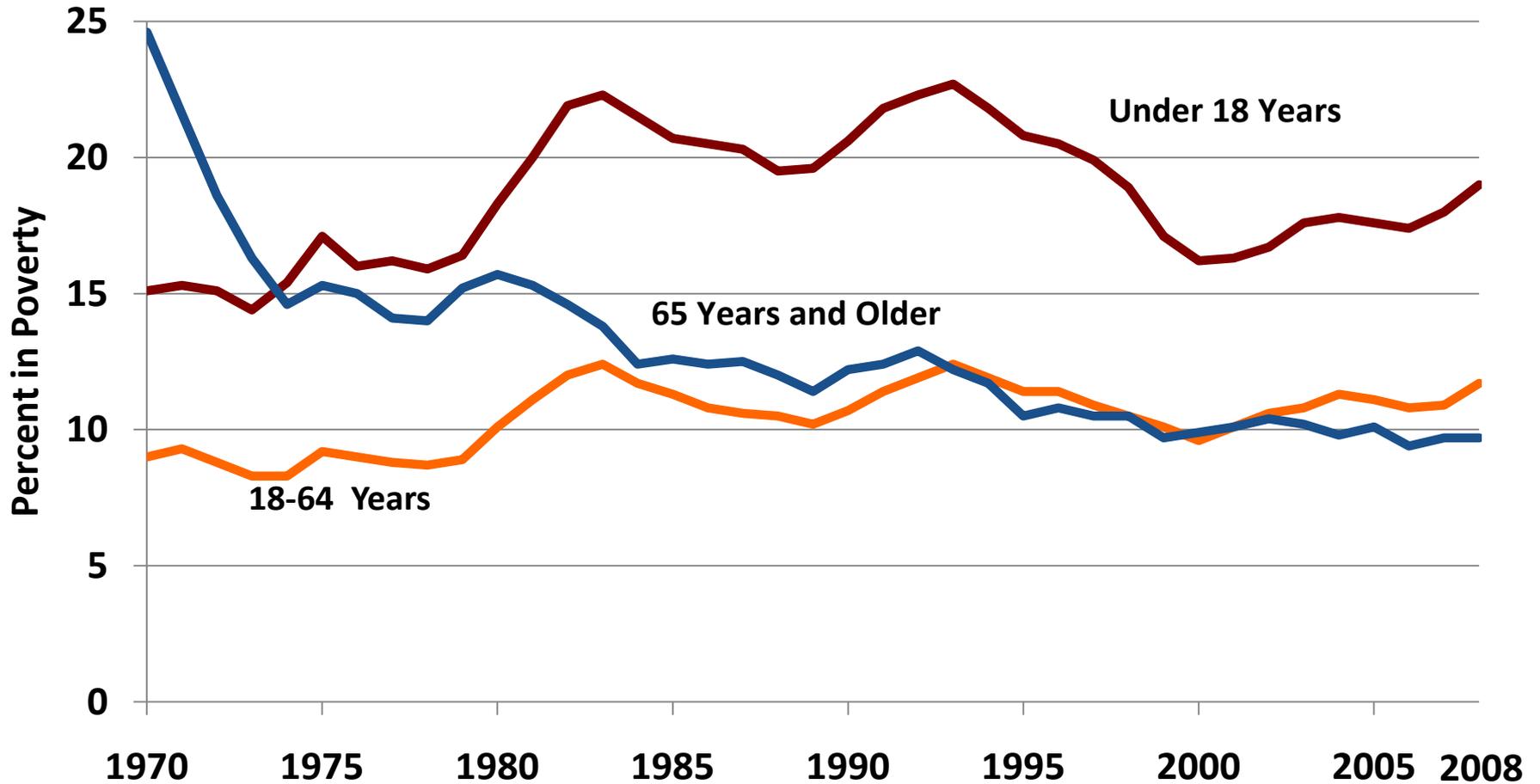


SOURCE: Data from Gopal K. Singh and Mohammad Siahpush, "Widening Socioeconomic Inequalities in U.S. Life Expectancy, 1980–2000," *International Journal of Epidemiology*, vol. 35, no. 4 (2006), pp. 969–979. Compiled by PGPF.  
NOTE: The deprivation index considers 11 different factors, among them education, wealth, occupation, and income.

## Chart 36: Poverty levels by age groups: 1970-2008 (percentage of age group)

Since 1970, poverty rates among Americans aged 65 years or older has declined as a result of benefits received from Social Security. While Medicare is not included in the calculation of poverty rates, the benefits provided from the program have reduced the amount of resources that seniors might otherwise had to contribute to healthcare. During this 40 year period, seniors moved from having the highest poverty rate to the lowest. Children now represent the group with the highest poverty rate, while, the poverty levels of those under 65 have steadily increased.

Poverty levels for the young population have remained higher than other age groups and have been on the rise, while the poverty levels for the elderly have declined

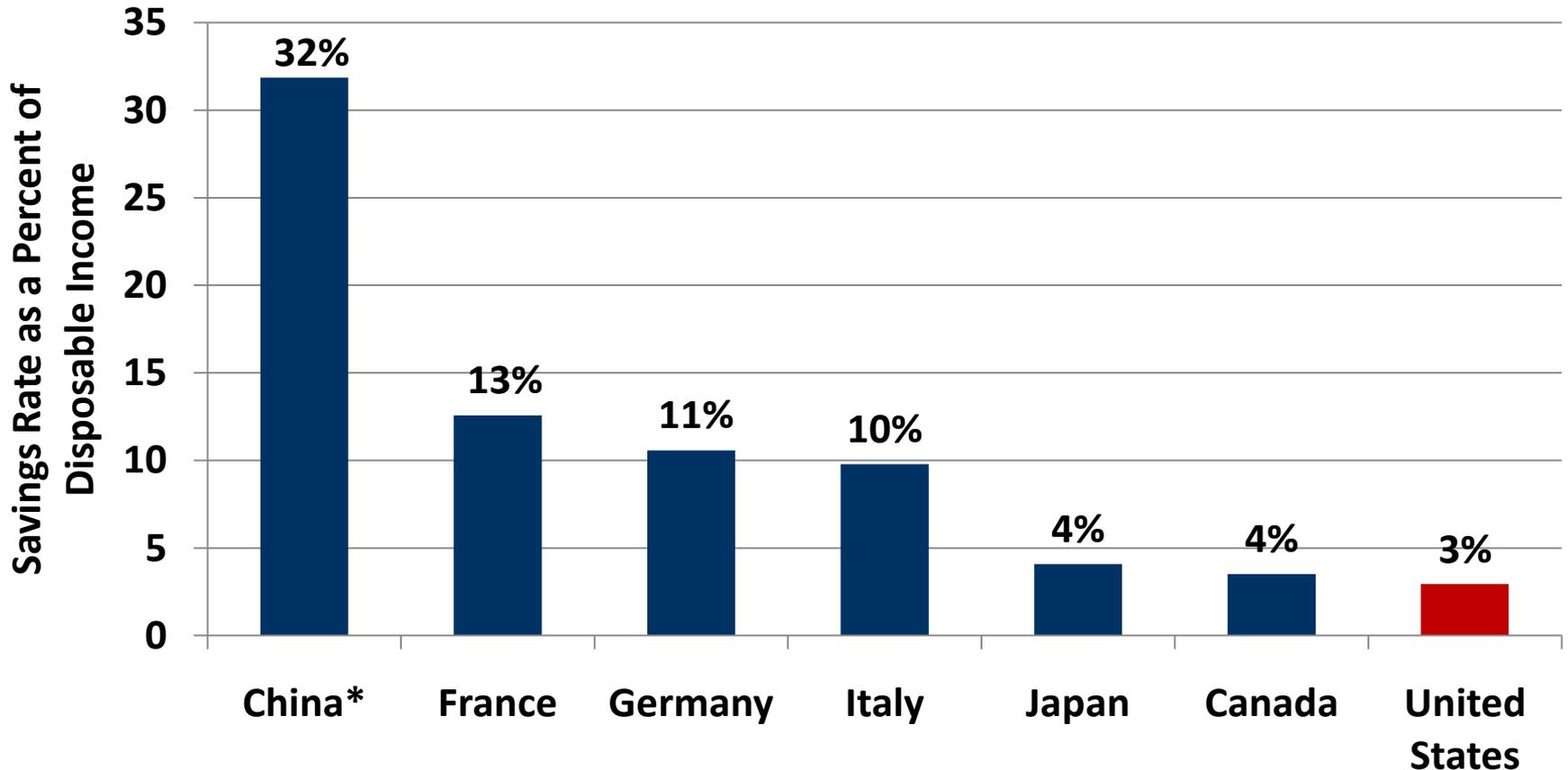


SOURCE: Data from the U.S. Census Bureau, poverty statistics. Compiled by PGPF.

## Chart 37: International comparison of households savings (percentage of disposable income)

Over the last decade, the United States has had one of the lowest average household savings rates of the major industrialized countries. It is only one tenth of China's and a third of Italy's. If domestic savings are insufficient, the country must rely on foreign lenders and investors for its borrowing needs, and the returns on those investments will flow abroad instead of staying here at home.

## Among OECD countries, U.S. has one of the lowest average household savings rates as a percent of disposable income over the 2000-2010 period



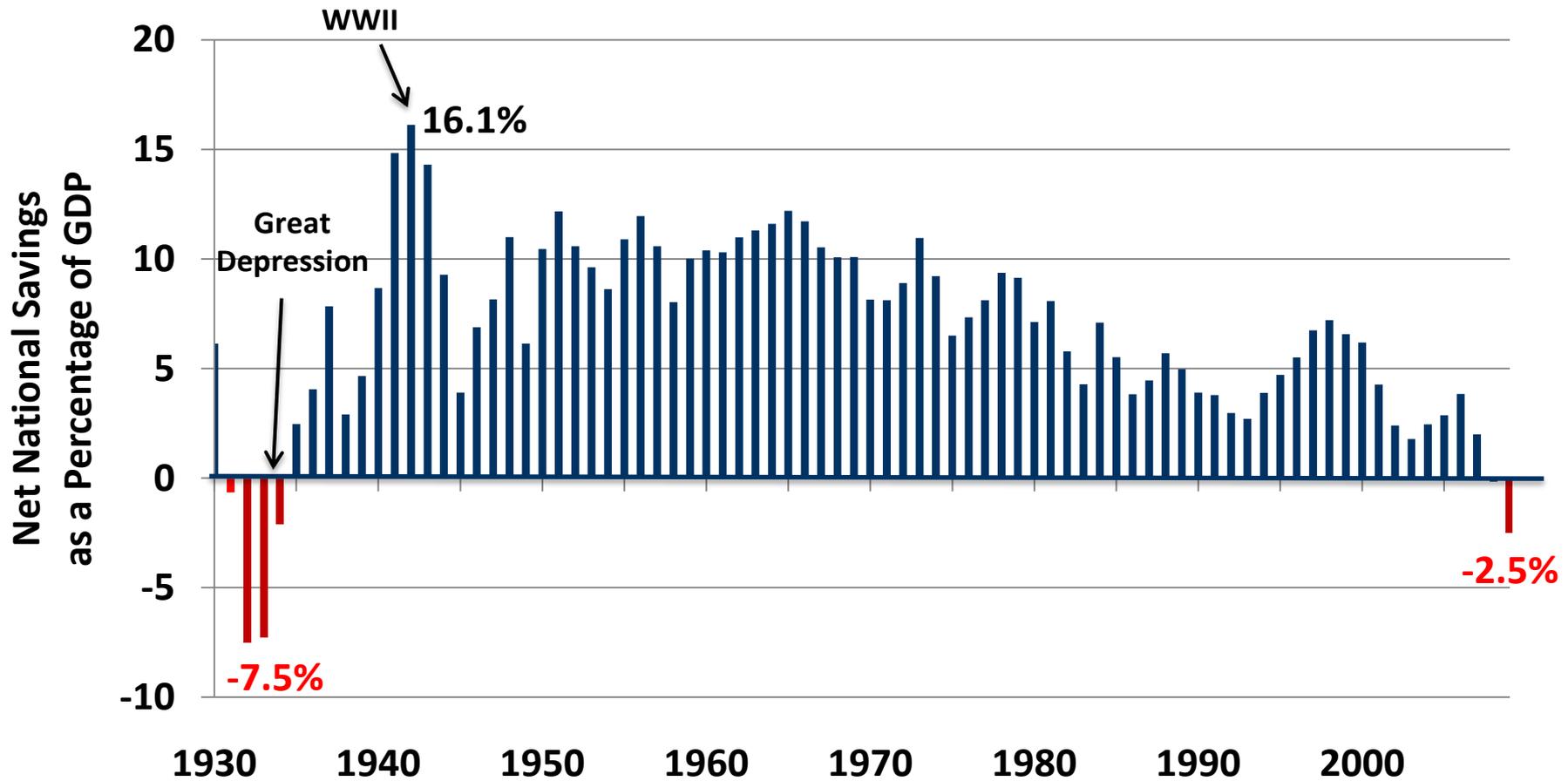
SOURCE: Data from the OECD *Economic Outlook Volume 2009 Issue 2*: December 2009; CEIC *Flow of Funds* data, for China. Compiled by PGPF.

\*Data for China actually reflects average across the period of 2000-2007.

## Chart 38: Net national savings: 1930-2009 (percentage of GDP)

The net national savings rate (i.e., personal, private sector and government) was negative in 2009 for the first time since the Great Depression. Much of this was due to the effects of the recession and the resulting increase in government spending and other interventions that were used to address challenges affecting the housing, financial services, and auto industries. In the future, the U.S. must take steps to increase its net savings rate in order to provide investment capital and reduce its reliance on foreign lenders.

# The net national savings rate is at its lowest level since the Great Depression



SOURCE: Data from the Bureau of Economic Analysis, National Income and Product Accounts. Compiled by PGPF.

NOTE: The net national savings rate comprises both public and private savings net of consumption-related expenditures.

2009



# Data Assumptions

Data used in the charts and tables are taken primarily from government sources. Most historical data are taken from the Historical Tables of the *President's Budget FY 2011* (with the exception of the data on historical debt held by the public, which were taken from supporting tables in the Congressional Budget Office, 2009 *Long-term Budget Outlook*). Unless otherwise noted, long-term projections use the alternative simulation (using CBO assumptions) of the Government Accountability Office's (GAO) *The Federal Government's Long-term Fiscal Outlook*. The alternative simulation differs from the baseline extended projections in that discretionary spending grows with GDP rather than inflation in the first 10 years, Medicare physician payment rates are not reduced, all tax provisions are extended through 2020, and the alternative minimum tax (AMT) is fixed for inflation through 2020.

Data on revenues and tax policy are taken from the above sources whenever possible, but also rely on data compiled and calculated by the Tax Policy Center.

Most data used in international comparisons of health care, taxes, savings rates and demographics come from the Organisation for Economic Co-operation and Development (OECD). One notable exception to this is the chart comparing international public debt levels, which relies on general government gross debt data from the International Monetary Fund (IMF).

Specific information and projections, including demographic assumptions, relating to the entitlement programs (Social Security, Medicare and Medicaid) are drawn directly from their respective agencies, the Social Security Administration (SSA) and the Centers for Medicare and Medicaid Services (CMS). In addition to CMS, some of the Medicare-based charts rely on data from the Dartmouth Atlas Group, which has done extensive reports on national, regional and local Medicare trends. Population data come from the U.S. Census Bureau.

The charts and tables in this book reflect the most recent data available, and are subject to change as new information becomes available.

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## ***Federal Government Websites***

Bureau of Economic Analysis, [www.bea.gov](http://www.bea.gov)  
Centers for Medicare & Medicaid Services, [www.cms.gov](http://www.cms.gov)  
Congressional Budget Office, [www.cbo.gov](http://www.cbo.gov)  
Economic Recovery, [www.recovery.gov](http://www.recovery.gov)  
House Budget Committee, [www.budget.house.gov](http://www.budget.house.gov)  
House Ways and Means Committee, [www.waysandmeans.house.gov](http://www.waysandmeans.house.gov)  
Joint Committee on Taxation, [www.jct.gov](http://www.jct.gov)  
The Federal Reserve, [www.federalreserve.gov](http://www.federalreserve.gov)  
MedPAC, [www.medpac.gov](http://www.medpac.gov)  
Office of Management and Budget, [www.omb.gov](http://www.omb.gov)  
Senate Appropriations Committee, [www.appropriations.senate.gov](http://www.appropriations.senate.gov)  
Senate Budget Committee, [www.budget.senate.gov](http://www.budget.senate.gov)  
Senate Finance Committee, [www.finance.senate.gov](http://www.finance.senate.gov)  
Social Security Administration, [www.ssa.gov](http://www.ssa.gov)  
Tax Policy Center, [www.taxpolicycenter.org](http://www.taxpolicycenter.org)  
U.S. Census Bureau, [www.census.gov](http://www.census.gov)  
U.S. Department of the Treasury, [www.ustreas.gov](http://www.ustreas.gov)  
U.S. Government Accountability Office, [www.gao.gov](http://www.gao.gov)

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The Brookings Institution, [www.brookings.edu](http://www.brookings.edu)  
CATO Institute, [www.cato.org](http://www.cato.org)  
Center for American Progress, [www.americanprogress.org](http://www.americanprogress.org)  
Center on Budget and Policy Priorities, [www.cbpp.org](http://www.cbpp.org)  
The Center for Economic and Policy Research, [www.cepr.net](http://www.cepr.net)  
Choose to Save, [www.choosetosave.org](http://www.choosetosave.org)  
Citizen's Against Government Waste, [www.cagw.org](http://www.cagw.org)  
The Committee for Economic Development, [www.ced.org](http://www.ced.org)  
The Committee for a Responsible Federal Budget, [www.crfb.org](http://www.crfb.org)  
The Concord Coalition, [www.concordcoalition.org](http://www.concordcoalition.org)  
The Economic Policy Institute, [www.epi.org](http://www.epi.org)  
Employee Benefit Research Institute, [www.ebri.org](http://www.ebri.org)  
The Fiscal Times, [www.thefiscaltimes.org](http://www.thefiscaltimes.org)  
The Heritage Foundation, [www.heritage.org](http://www.heritage.org)  
The Kaiser Family Foundation, [www.kff.org](http://www.kff.org)  
National Academy for Public Administration, [www.napawash.org](http://www.napawash.org)  
Peterson Institute for International Economics, [www.iie.com](http://www.iie.com)  
Progressive Policy Institute, [www.ppionline.org](http://www.ppionline.org)  
Tax Foundation, [www.taxfoundation.org](http://www.taxfoundation.org)  
The Tax Policy Center, [www.taxpolicycenter.org](http://www.taxpolicycenter.org)  
Organisation for Economic Co-operation and Development, [www.oecd.org](http://www.oecd.org)  
The Urban Institute, [www.urban.org](http://www.urban.org)

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Our mission is to increase public awareness of the nature and urgency of key economic challenges threatening America's future and to accelerate action on them. To meet these challenges successfully, we work to bring Americans together to find sensible, sustainable solutions that transcend age, party lines and ideological divides in order to achieve real results.

